IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached document and you are advised to read this disclaimer carefully before reading, accessing or making any other use of the attached document. In accessing the document you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Joint-Stock Company "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" (the "**Issuer**"), Citigroup Global Markets Limited (the "**Sole Global Coordinator and Joint Bookrunner**"), Bank GPB International S.A., Natixis and SMBC Nikko Capital Markets Limited (together with the Sole Global Coordinator and Joint Bookrunner, the "**Joint Bookrunners**") named herein as a result of such access. The attached document is intended for the addressee only.

THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THE NOTES (THE "**NOTES**") REFERENCED IN THE ATTACHED DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, THE US SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your Representation: In order to be eligible to view the attached document or make an investment decision with respect to the Notes, investors must comply with the following provisions. You have been sent the following document on the basis that you have confirmed to the Issuer and the Joint Bookrunners named herein, being the senders of the attached document, that you are a person that is outside the United States (within the meaning of Regulation S under the Securities Act) and that you are (a) a relevant person (as defined below) if in the United Kingdom; or are (b) outside the United Kingdom (and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in such jurisdictions). By accepting this e-mail and accessing the attached document, you shall be deemed to have made the above representation and to have consented to delivery of such document by electronic transmission.

In addition, in the United Kingdom, the attached document is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"); (b) high net worth entities and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order; and (c) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended ("**FSMA**") in connection with the issue or sale of any securities of the Issuer or any member of its Group (as defined herein) may otherwise lawfully be communicated or caused to be communicated (all such persons together referred to as "**relevant persons**"). Any investment or investment activity to which the document relates is available only in the United Kingdom to relevant persons and will be engaged in only with such persons.

This document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

Manufacturer target market (MiFID II product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document has been prepared as the Notes will not be made available to retail investors in the European Economic Area or in the United Kingdom.

Neither this electronic transmission nor the attached document constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful. This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Joint Bookrunners, the Trustee, the Principal Paying Agent, the Paying Agents, the Registrar nor any person who controls any of them, nor any director, officer, employee or agent of any of them, nor any affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between this document distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

No representation or warranty, expressed or implied, is made or given by or on behalf of the Joint Bookrunners, the Trustee, the Principal Paying Agent, the Paying Agents, the Registrar nor any person who controls any of them, nor any director, officer, employee or agent of any of them, nor any affiliate of any such person, as to the accuracy, completeness or fairness of the information or opinions contained in this document and such persons do not accept responsibility or liability for any such information or opinions.

JOINT-STOCK COMPANY "NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN"

(incorporated in the Republic of Uzbekistan)

U.S.$300,000,000 4.85 per cent. Notes due 2025

Issue Price 100 per cent.

Joint-Stock Company "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" (the "**Issuer**" or the "**Bank**"), a bank incorporated under the laws of the Republic of Uzbekistan, is issuing an aggregate principal amount of the U.S.$300,000,000 4.85 per cent. Notes due 2025 (the "**Notes**"). The Notes will be constituted by, subject to, and have the benefit of a trust deed to be dated 21 October 2020 (as may be amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citibank, N.A., London Branch as trustee (the "**Trustee**") for the benefit of Noteholders (as defined in the "*Terms and Conditions of the Notes*").

Interest on the Notes will accrue from 21 October 2020 (the "**Closing Date**") and will be payable semi-annually in arrear on 21 April and 21 October of each year (each an "**Interest Payment Date**"), commencing on 21 April 2021 (the "**Interest Commencement Date**").

The Notes mature on 21 October 2025 the ("**Maturity Date**") but may be redeemed before then at the option of the Issuer in whole but not in part, at any time prior to the date falling three months prior to the Maturity Date, but on one occasion only, on giving not less than 30 nor more than 60 days' irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium (as defined in the "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at Make Whole*"). The Issuer may also redeem the Notes in whole, but not in part, at their principal amount together with any accrued and unpaid interest, if the Issuer has or will become obliged to pay certain additional amounts as further described under "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for tax reasons*". The Notes are also subject to redemption, in whole or in part, at their principal amount, together with any accrued and unpaid interest and additional amounts (if any), at the option of the Issuer at any time on or after the date falling three months prior to the Maturity Date. See "*Terms and Conditions of the Notes—Redemption and Purchase—Optional Redemption at Par*". If a Change of Control (as defined in the "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a Change of Control*") occurs, the Issuer shall, at the option of a holder of any Note, redeem or purchase such Note on the Change of Control Put Date (as defined in the "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a* Change of Control") at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to (but excluding) the Change of Control Put Date. See "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of Noteholders upon a Change of Control*".

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the "**Financial Conduct Authority**") for the Notes to be admitted to the official list of the Financial Conduct Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (as amended, "**MiFID II**"). This Prospectus will be valid until the date of admission of the Notes to trading on the Market. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when the Prospectus is no longer valid.

Investing in the Notes involves risks. See "Risk Factors" starting on page 13 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes are expected to be rated BB- by S&P Global Ratings Europe Limited ("**S&P**") and BB- by Fitch Ratings CIS Limited ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. S&P is established in the European Union and Fitch is established in the United Kingdom. Each of S&P and Fitch is registered under the Regulation (EC) No. 1060/2009, as amended (the "**CRA Regulation**"). This list is available on the ESMA website (http://www.esma.europa.eu/page/list-registered-and-certified-CRAs).

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States.

The Notes will be offered and sold in registered form and without interest coupons attached in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Notes will be represented by beneficial interests in an unrestricted global note (the "**Global Note**"), in registered form and without interest coupons attached. The Global Note will be deposited with a common depositary for Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") and registered in the name of a nominee of such common depositary on or about the Closing Date.

The Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, registered, form, without interest coupons. See "*Summary of the Provisions relating to the Notes when in Global Form*". Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Note will be made on or about the Closing Date. Except as described herein, definitive certificates for Notes will not be issued in exchange for beneficial interests in the Global Note.

Sole Global Coordinator and Joint Bookrunner

CITIGROUP

Joint Bookrunners

BANK GPB INTERNATIONAL S.A. (GAZPROMBANK) | **NATIXIS** | **SMBC NIKKO**

Prospectus dated 19 October 2020

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus (the "**Prospectus**") comprises a prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council dated 14 June 2017 (the "**Prospectus Regulation**") and for the purpose of giving information with regard to the Issuer and its consolidated subsidiaries taken as a whole (the "**Group**"), the Notes, which, according to the particular nature of the Issuer, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Group, the rights attaching to the Notes and of the reasons for the issuance and its impact on the Issuer and the Group. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

No person is authorised to give any information or to make any representation in connection with the offer or sale of the Notes other than as contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by the Issuer, the Trustee, any Agent (as defined herein) or any Joint Bookrunner (as defined in "*Subscription and Sale*"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the business and affairs of the Issuer or the Group since the date hereof or that there has been no adverse change in the financial position of the Issuer or the Group since the date hereof or that the information contained in it is correct as at any time subsequent to the date on which it is supplied. No representation or warranty, express or implied, is made by any Joint Bookrunner, any Agent or the Trustee as to the accuracy or completeness of such information. None of the Joint Bookrunners, the Agents or the Trustee accepts any responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Issuer or the Notes. Each of the Joint Bookrunners, the Agents and the Trustee accordingly disclaims all and any liability whether arising in tort, contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement.

This Prospectus does not constitute an offer to sell, or a solicitation to subscribe for or purchase, by or on behalf of the Issuer, any Joint Bookrunner or any other person, any of the Notes in any jurisdiction where it is unlawful for such person to make such offer or solicitation. The distribution of this Prospectus and the offer and sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe such restrictions. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*".

No action has been or will be taken to permit a public offering of the Notes or the distribution of this Prospectus (in any form) in any jurisdiction where action is required for such purposes.

None of the Issuer, the Joint Bookrunners, the Agents, the Trustee, or any of its or their respective representatives or affiliates makes any representation to any offeree or purchaser of Notes offered hereby regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. The contents of this Prospectus should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes.

To the fullest extent permitted by law, the Joint Bookrunners, the Trustee and the Agents accept no responsibility whatsoever for the Notes, the Trust Deed or the Paying Agency Agreement (each as defined herein) (including the effectiveness thereof) or the contents of this Prospectus or for any other statement made or purported to be made by a Joint Bookrunner, an Agent or the Trustee or on its behalf in connection with the Issuer or the issue and offering of the Notes. Each Joint Bookrunner, each Agent and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of the Notes, the Trust Deed, the Paying Agency Agreement, this Prospectus or any such statement.

In connection with the Offering of the Notes, the Joint Bookrunners and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or related investments in connection with the Offering of the Notes or otherwise. Accordingly, references in this Prospectus to the Notes being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Joint Bookrunners and any of their affiliates acting as investors for their own accounts. The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Prospectus are authorised to use it solely for the purpose of considering an investment in the Notes and may not reproduce, forward or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Notes.

Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Bookrunners to inform themselves about and to observe any such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Issuer and the Joint Bookrunners are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, the Trustee, the Agents, the Group or the Joint Bookrunners or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters.

The Joint Bookrunners and their respective affiliates may have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates (including its shareholders).

Prior to making any decision as to whether to invest in the Notes, prospective investors should read this Prospectus. In making an investment decision, prospective investors must rely upon their own examination of the Issuer and the Group and the terms of this Prospectus, including the risks involved. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes and, in particular, the information contained or incorporated by reference in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the merit and risks of an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic considerations, interest rate volatility and other factors that may affect its investment and its ability to bear the applicable risks.

If investors are in any doubt about the contents of this Prospectus, investors should consult a stockbroker, bank manager, solicitor, accountant or other financial adviser.

Any investment in Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Fund of Guarantee of Citizens' Deposits in Banks of the Republic of Uzbekistan.

This document has been approved by the Financial Conduct Authority, as competent authority under the Prospectus Regulation. The Financial Conduct Authority only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus. Such approval should not be considered as an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability in investing in the Notes.

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

Solely for the purpose of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA AND U.K. RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom ("**U.K.**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**IDD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the U.K. has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the U.K. may be unlawful under the PRIIPS Regulation.

NOTICE TO THE UNITED KINGDOM INVESTORS

This Prospectus is directed solely at (i) persons outside the United Kingdom, (ii) persons with professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the "**Order**"), (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended ("**FSMA**") in connection with the issue or sale of any securities of the Issuer or any member of its Group may otherwise lawfully be communicated or caused to be communicated (all such persons in (i) to (iv) above being "**relevant persons**"). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

NOTICE TO PROSPECTIVE INVESTORS IN SINGAPORE

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in Monetary Authority of Singapore (the **"MAS"**) Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.

CERTAIN INFORMATION CONTAINED IN THIS PROSPECTUS

In this Prospectus, the Issuer relies on and refers to publicly available information released by official and unofficial sources other than the Issuer. These sources include, but are not limited to, the Central Bank of Uzbekistan (the "**CBU**"), research reports, analyst reports, press releases, securities filings and industry publications, including the State Committee of the Republic of Uzbekistan on Statistics and IMF. Although the Issuer believes that this information is reliable, it has not independently verified this information and cannot guarantee its accuracy and completeness. In addition, some of the information contained in this Prospectus has been derived from official data published by the Uzbekistan Government (the "**Uzbekistan Government**" or "**Government**"). Official statistics and other data published by Uzbekistan federal, regional and local governments are substantially less complete or transparent than those of Western countries. Official statistics may also be compiled on the basis of methodologies different from those used in Western countries. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced. As far as the Issuer is aware and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus includes market data and industry forecasts and projections that have been obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' expertise in the industry, and there is no assurance that any of the forecasts or projections will be achieved. Similarly, the Issuer believes that the surveys and market research others have performed are reliable, but the Issuer has not independently verified this information.

In addition, the Issuer has included its own estimates, assessments, adjustments and judgements in preparing some market information, which have not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third party source, subjective to a certain degree. Market information or that market information prepared by other sources may differ materially from the market information included herein.

The Issuer's website is https://nbu.uz/. The contents of the Issuer's website or any other websites referred to in this Prospectus do not form any part of the content of this Prospectus.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language, Uzbek, in order that the correct technical meaning may be ascribed to them under applicable law.

LIMITATIONS ON ENFORCEMENT OF ARBITRAL AWARDS AND JUDGMENTS

Substantially all of the Issuer's directors and executive officers reside in Uzbekistan. All or a substantial portion of their and the Group's assets are located in Uzbekistan. As a result, it may not be possible for you to:

- effect service of process outside Uzbekistan upon substantially all of the Issuer's directors and executive officers; or
- enforce non-Uzbek court judgments obtained against the Issuer or substantially all of its directors and executive officers in non-Uzbek courts in any action.

In addition, it may be difficult for you to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English law, as applicable.

The United Kingdom is not party to a treaty on mutual recognition and enforcement of judgments with the Republic of Uzbekistan and even if an applicable international treaty is in effect, the recognition and enforcement in Uzbekistan of a foreign judgment will in all events be subject to exceptions and limitations provided for in the laws of the Republic of Uzbekistan. In the absence of such agreements, the courts of Uzbekistan may recognise and enforce a foreign judgment on the basis of the principle of reciprocity. The Uzbek legislation does not include clear rules on the application of the principle of reciprocity. Thus, there can be no assurance that the courts of Uzbekistan will recognise and enforce a judgment rendered by courts of a jurisdiction with which Uzbekistan has no agreement on the basis of the principle of reciprocity.

The Trust Deed will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto against the Issuer to be settled by arbitration in accordance with the LCIA Rules in London, England. The Republic of Uzbekistan and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the "**New York Convention**"). However, an Uzbek court may refuse the recognition and enforcement of foreign arbitral awards in full or part if one of the following grounds exists:

- a party to the arbitration agreement is in any way incapable by the law applicable to it or the arbitration agreement is invalid under the chosen governing law, and in the absence of such governing law — according to the law of the country where a foreign arbitral award has been rendered;
- a party against which a foreign arbitral award is rendered has not been timely and duly notified about the proceedings, their time and place or due to other reasons could not provide its explanations;
- a foreign arbitral award is rendered in a dispute not provided for or not subject to the terms of the arbitration agreement or arbitration clause in the contract, or contains rulings on matters beyond the scope of the arbitration agreement or arbitration clause in the contract, unless rulings on matters covered by the arbitration agreement either by such agreement or reservation may be separated from those not covered by such agreement or reservation;
- a composition of the arbitration body or the arbitration process did not comply with the agreement of the parties or, in the absence thereof, did not comply with the law of the country where the arbitration took place;
- a foreign arbitral award is not final for the parties or cancelled, or suspended by the competent authority of the state where it was rendered, or of the country the laws of which are being applied;
- a dispute was resolved by an incompetent foreign court or arbitration.

The court may also refuse to recognise and enforce a foreign arbitral award if:

- enforcement of a foreign arbitral award will contradict the "public policy" of the Republic of Uzbekistan;
- the subject matter of the dispute may not be subject to arbitration under the laws of the Republic of Uzbekistan;
- the statute of limitations for the enforcement of a foreign arbitral award has expired.

Recognition and enforcement of foreign arbitral awards in Uzbekistan may still be difficult, in particular, if the enforcement of a foreign arbitral award conflicts with the "public policy" of Uzbekistan. The laws of Uzbekistan do not provide any clear guidelines for determining what the "public policy" of Uzbekistan actually is. The ambiguity of the "public policy" concept may be used by Uzbek courts to deny recognition and enforcement of foreign arbitral awards rendered against Uzbekistan or threatening its interests.

In addition, an Uzbek court will ignore any dispute resolution agreement of the parties if it finds that under the Uzbekistan legislation it has exclusive jurisdiction over such disputes.

Although Uzbek law recognises choice of law principles for contractual obligations, the choice of foreign law will not exclude the application of mandatory rules of Uzbek law which cannot be derogated from by the agreement of the parties. According to Uzbek law, regardless of the choice of law applicable to the relations of the parties, certain mandatory rules of Uzbek law still shall be applied.

In Uzbekistan, upon receipt of a foreign arbitral award, the party seeking to enforce the award must submit an application for the recognition and enforcement of the foreign arbitral award to the relevant economic courts in the Republic of Uzbekistan. The court will review the award to ensure there are no grounds (as discussed above) to refuse recognition and enforcement. Upon a finding that the foreign arbitral award is satisfactory, the court will adapt a ruling on recognition and enforcement and issue a writ of execution, which must be submitted to the Bureau of Mandatory Enforcement within three years of the court's ruling on the foreign arbitral award.

As a condition for admissibility in evidence of any documents, the courts of Uzbekistan will require the submission of such documents either (i) as originally executed counterparts, or (ii) as duly notarised copies. In addition, in case of an official document issued outside Uzbekistan, unless a valid international agreement of Uzbekistan provides otherwise, such official document will be admissible in evidence by a court of Uzbekistan if (i) such official document is legalised by an Uzbek consul in the country of its issuance and a duly certified Uzbek language translation of such official document is notarised by an Uzbek notary or (ii) the apostil is affixed to such official document by the competent authority of the country of its issuance subject to the Convention Abolishing the Requirement of Legalisation for Foreign Public Documents dated 5 October 1961 and a duly certified Uzbek language translation of such official document is notarised by an Uzbek notary.

See "*Risk Factors–Risks Related to Republic of Uzbekistan–Enforcement of judgements or arbitral awards against the Bank can be difficult*".

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact contained in this Prospectus, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets in which the Group participates or seeks to participate, and any statements preceded by, followed by or that include the words "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements include, amongst other things, statements concerning:

- overall business conditions;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- economic and political conditions in Uzbekistan;
- the timing, impact and other uncertainties of future actions;
- inflation, interest rate fluctuations, foreign currency and exchange rate fluctuations and other capital market conditions in Uzbekistan;
- the condition and performance of the economy, including the Uzbekistan's banking sector;
- the effects of, and changes in, the policy of the Government of the Republic of Uzbekistan;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in Uzbekistan;
- the Group's ability to maintain or increase market share for its products and services and control expenses;
- the Group's ability to meet its funding obligations and develop and maintain additional sources of financing;
- the Group's ability to continue to diversify its client base;
- the impact of the growth of the Bank's loan portfolio on its revenue potential and overall asset quality;
- technological changes; and
- the Bank's ability to manage the risks associated with the aforementioned factors.

The forward-looking statements included in this Prospectus involve known and unknown risks, uncertainties and other factors which may cause the Group's actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Group will operate in the future. You should be aware that a number of important factors provided above could cause the industry's or the Group's own actual results or performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

This list of important factors is not exhaustive. Additional factors that could cause actual results, performance or achievements to differ materially include those discussed under "*Risk Factors*". When considering forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they are made, and the Issuer expressly disclaims any obligation or undertaking to release publically any updates or revisions to any forward-looking statement contained herein to reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The Issuer does not make any representation or warranty that the results anticipated by such forward-looking statements will be achieved.

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The Group's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustment, from the Group's unaudited interim condensed consolidated financial information for the six-month period ended 30 June 2020 prepared in accordance with IAS 34 Interim Financial Reporting (the "**Interim Financial Statements**") and the Group's audited consolidated financial statements for the years ended 31 December 2019 and 2018 (the "**Annual Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**"), set forth on pages F-2 through F-180 of this Prospectus. The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as promulgated by the International Accounting Standards Board.

The Uzbek soum is the functional currency of the Bank and the presentation currency for the Financial Statements. The Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in Uzbek soums.

Independent Auditors

The Annual Financial Statements included in the Prospectus have been audited by "Ernst & Young" Audit Organization LLC ("**Ernst & Young** "), as stated in their auditor reports appearing herein. The Interim Financial Statements were reviewed by Ernst & Young in accordance with ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity,* as stated in the review report appearing herein. With respect to such unaudited financial statements, Ernst & Young has reported that it applied limited procedures in accordance with the professional standards for review of such information and its report states that it did not audit and does not express an opinion on such interim financial information. Accordingly, the degree of reliance upon the report on such information should be restricted in light of the limited nature of the review procedures applied. The unaudited interim condensed consolidated financial information for the six-month period ended 30 June 2019 contained in the Interim Financial Statements was neither audited nor reviewed by Ernst & Young. Accordingly, the degree of reliance upon such information should be limited. The address of Ernst & Young is 75 Mustakillik Avenue, Tashkent 100000, Republic of Uzbekistan. Ernst & Young has a licence authorising audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under registration number 00816 dated 17 April 2019 and a certificate authorising audit of banks registered by the CBU under registration number 11 dated 22 July 2019.

Certain Definitions and Currencies

In this Prospectus, all references to:

- the "**Group**" are to JSC "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" and its consolidated subsidiaries taken as a whole;
- "**CBU**" are to the Central Bank of Uzbekistan;
- "**CIS**" are to the Commonwealth of Independent States and its member states as at the date of this Prospectus, being Russia, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan;
- "**ESG**" are to environmental, social and governance;
- "**EU**" are to the European Union;
- "**Listing Rules**" are to the rules of the Financial Conduct Authority relating to admission of to the Official List.
- "**US**" are to the United States of America;

- "**IFIs**" are to international financial institutions;
- "**UFRD**" are to Uzbekistan's Fund for Reconstruction and Development.

In this Prospectus, the following currency terms are used:

- "**UZS**", "**Uzbek soums**" or "**soums**" means the lawful currency of the Republic of Uzbekistan;
- "**U.S.$**" or "**U.S. dollar**" means the lawful currency of the United States; and
- "**EUR**", "**Euro**" "**euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

Exchange Rate

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Uzbek soum and the U.S. dollar, based on the official exchange rate quoted by the CBU. Fluctuations in the exchange rates between the Uzbek soum and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

	High	**Low**	**Average**[(1)]	**Period end**
Year				
2015	2,809.98	2,424.23	2,573.48	2,809.98
2016	3,231.48	2,816.47	2,968.90	3,231.48
2017	8,120.07	3,239.62	5,140.30	8,120.07
2018	8,339.55	7,783.05	8,068.05	8,339.55
2019	9,537.55	8,336.25	8,851.36	9,507.56
2020 (up to and including 19 October 2020)	10,364.48	9,500,54	9,967.07	10,364.48

(1) The average of the exchange rates for each day during the year or period, as applicable.

Source: CBU

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Key Performance Indicators

The key performance indicators ("**KPIs**") or alternative performance measures ("**APMs**") described below have been derived from the Financial Statements. Where used, the relevant metrics are identified as APMs and accompanied by an explanation of each such metric's components and calculation method.

This Prospectus includes certain financial measures that are not measures of performance specifically defined by IFRS. These include return on average assets, return on average equity, cost-to-income ratio, net interest margin, total liquid assets and non performing loans ("**NPL**") ratio. The KPIs and APMs disclosed in this Prospectus should not, however, be considered as an alternative to, in isolation from or as substitutes for financial information reported under IFRS. The KPIs and APMs disclosed in this Prospectus are not measures specifically defined by IFRS and the Group's use of these measures may vary from other companies in its industry due to differences in accounting policies or differences in the calculation methodology of similar measures by other companies in its industry. In addition, due to adoption of new accounting standards by the Group, certain comparative KPIs and APMs may not be comparable.

Translations

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. All translations in this Prospectus are direct and accurate translations of the original text.

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OVERVIEW OF THE GROUP

This overview highlights certain information concerning the business of the Group and the Notes. It does not contain all information that may be important to an investor in the Notes or an investment decision in relation to the Notes. This overview should be carefully read in conjunction with, and is qualified in its entirety by reference to, the more detailed information in this Prospectus, including the Financial Statements. Investors should also consider the matters set forth in "Risk Factors" before deciding to invest in the Notes. Certain statements in this Prospectus include forward-looking statements which also involve risk and uncertainties as described under "Cautionary Statement Regarding Forward-Looking Statements".

Overview

Established in 1991, the Bank is a domestic systemically important bank and one of the leading universal banks in the Republic of Uzbekistan offering a full spectrum of banking products, services and solutions. According to the CBU, as at 1 June 2020, the Bank was ranked as the largest commercial bank in Uzbekistan by total assets (24 per cent. market share), by capital (25 per cent. market share), by deposits (17 per cent. market share), by loan portfolio (25 per cent. market share) and by net profit (19 per cent. market share). The Bank benefits from a strong shareholder base and a commercially-oriented business model and provides a comprehensive range of banking services, including state, corporate and retail lending, deposit-taking, customer accounts, international money transfers, letters of credit, guarantees, foreign exchange operations and other products. The Bank conducts its banking operations through its head office in Tashkent, a diversified distribution network which, as at 30 June 2020, included 73 branches, 30 mini-banks, 35 centres for banking services, 105 exchange desks, 38,999 banking terminals, 18 self-service points, 301 automated teller machines ("**ATMs**") and 332 infodesks and an integrated online banking platform and mobile application.

The Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance of the Republic of Uzbekistan, for subsidised financing of investment projects in a number of strategic industries, being mainly manufacturing and transport and communication, and has otherwise in its day-to-day operations relied on funding provided by the Uzbekistan Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from the IFIs. The Bank has also historically participated in the financial rehabilitation of insolvent companies in Uzbekistan pursuant to the directions issued by the Government. See "*Business–History*".

Since 2019, as part of the on-going economic reforms in Uzbekistan, the Bank is undergoing a transitional reform of its banking organisation from being dependent on state control, support and funding towards a more market-orientated business model. Under this transition strategy, the Uzbekistan Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as reducing the state support financing available to the Bank as well as the state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See "*–Competitive Strengths–History of strong shareholder support*".

Following such strategic transition, the Bank intends to rely less on state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as syndicated loans from foreign financial institutions and international capital markets, including eurobonds and credit linked notes issuances, as well as increase the share of deposits from private companies and retail deposits in its funding base. Furthermore, the Bank is taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of the Uzbekistan's economy, such as agriculture, retail, foreign trade, construction, extraction and processing of fuel and energy resources, as well as to further develop its long-standing relationships with large corporate clients in manufacturing and transport and communication sectors on more commercial and market orientated terms. In addition, in order to remain competitive and maintain its leading position in the Uzbekistan banking sector while ensuring greater customer satisfaction, the Bank is also planning to implement a number of innovative products and services and digital-based solutions. See "*–Strategy–*

Expansion of product range and shift towards a client-centric model" and *"–Strategy–Transformation into a digital bank*".

As at 30 June 2020, the Group's total assets comprised 72,425,973 million soums. Total gross loans to customers amounted to 62,477,871 million soums, with gross loans to corporate clients and gross loans to individuals accounting for 92.0 per cent. and 8.0 per cent. of total gross loans, respectively. As at 30 June 2020, the Group's total equity constituted 12,225,387 million soums. For the year ended 31 December 2019 and six months ended 30 June 2020, the Group generated profit of 790,089 million soums and 495,783 million soums, respectively.

The Bank was incorporated as a government specialised bank in 1991 and was converted into a joint-stock company in 2019. The Bank operates under banking licence No. 22 issued by the CBU on 15 February 2020. The Bank is domiciled in the Republic of Uzbekistan with its registered and head office being located at 101, Amir Temur street, Yunusabad district, Tashkent city, 100084, Republic of Uzbekistan. The telephone numbers of the registered office and the head office of the Bank are +998 78 148-00-10 and +99871 234-23-95. As at the date of this Prospectus, the Bank has the following long-term ratings: BB- from Fitch, B1 from Moody's and BB- from S&P.

Competitive Strengths

In line with its strategy, the Bank has consistently implemented a number of initiatives to ensure its sustainable development, remain competitive and maintain its status of a modern financial institution offering a broad range of products and services based on best international standards and practices. The Bank values its clients and adheres to a client-centric business model seeking to achieve strong client loyalty and highest level of customer satisfaction. In addition, the Bank actively engages with local industries offering affordable financing for technical and technological modernisation.

Management believes that the Bank benefits from the following competitive strengths:

History of strong shareholder support

The Uzbekistan Government has historically provided substantial financial support to the Bank to finance its business, which allowed the Bank to provide more attractive loans resulting in higher client loyalty and greater customer recognition. The Bank's management believes that the state support, including capital injections, enables the Bank to increase its assets and grow its loan portfolio despite low interest rates and lower margins. In addition, the Bank being a state owned company operating in developing economy is generally considered to be more reliable than private banks and more likely to receive state support in the event of financial crisis or contraction.

In 2018, the Bank received an interest free loan from the Government in the aggregate principal amount of 548,677 million soums. Gain from the initial recognition of this borrowing has been recognised as additional equity contribution made by the Government for total amount of 126,096 million soums. The management believes that, the Bank's shareholders will continue to provide capital injections or other funding as long as the Republic of Uzbekistan holds the controlling share of the Bank. See "*Risk Factors–Risks Related to the Group's Business and Industry–The banking sector in Uzbekistan and the Bank are undergoing a transition period*", "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Uzbekistan Government*" and "*Risk Factors–Risks Related to the Group's Strategy–The Bank's strategy is determined by the Uzbekistan Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders*".

Leading position in the banking market, currently high-quality customer base and growing loan portfolio, supported by a conservative risk management system

The Bank holds the leading position in Uzbekistan by assets, capital, deposits, loan portfolio and net profit. According to the CBU, as at 1 June 2020, the Bank was ranked as the largest commercial bank in Uzbekistan by total assets (24 per cent. market share), by capital (25 per cent. market share), by deposits (17 per cent. market share), by loan portfolio (25 per cent. market share) and by net profit (19 per cent. market share). In addition, the Bank benefits from a well-established position in the foreign trade turnover with over 70 per cent. of foreign trade transactions in Uzbekistan being serviced by the Bank.

To ensure resilience of asset quality and profitability of its loan portfolio, the Bank seeks to maintain a combination of low-risk loans to strategic sectors (such as manufacturing and transport and communication) backed by state guarantees, which account for the vast majority of the portfolio, and loans to private companies and retail loans which generally provide for higher margins as compared to the loans to strategic sectors. This combination, as well as the expected increase in small and medium enterprises ("**SME**") and retail lending, in conjunction with a conservative loan underwriting policy, resulting in higher average portfolio margins, as opposed to lending exclusively to strategic sectors backed by state guarantees only, while maintaining a prudent risk profile. The level of the Group's NPLs as a percentage of total gross loans to customers was 1.7 per cent., 3.2 per cent., 1.6 per cent. and 2.2 per cent. as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively.

As at 30 June 2020, the Group's gross corporate loan portfolio accounted for 92.0 per cent. of its total gross loans whereas the Group's gross loans to state companies comprised 45.2 per cent. of the Group's gross corporate loan portfolio. Despite the COVID-19 outbreak, the Group has increased its net loan portfolio by 5,715,580 million soums, or 10.6 per cent., as at 30 June 2020 as compared to 31 December 2019, while maintaining low levels of NPLs (which was largely achieved through adhering to a conservative underwriting policy and lending to creditworthy customers with established credit history and strong financial standing and, to a lesser extent, restructuring of loans through extension of payment holidays) and diversification of its loan portfolio by focusing on sectors with an established presence, economic growth dynamics and long-term customer relations, such as manufacturing and transport and communication.

The Bank enjoys long-standing relationships with large corporate clients in manufacturing, transport and communication sectors and has a deep understanding of their business, industry and needs. The Bank plans to further strengthen its relationship with these clients by providing them with tailored higher-margin products, including loans, bank guarantees and letters of credit. In addition, the Bank has been taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of the Uzbekistan's economy such as agriculture, foreign trade, extraction and processing of fuel and energy resources, metallurgy, construction and construction materials, thermal power plant servicing, film industry and other industries. Furthermore, the Group has also focused on increasing the retail loan portfolio. As at 30 June 2020, its retail loan portfolio increased by 442,202 million soums, or 9.7 per cent., compared to 31 December 2019, which resulted in the increase of the share of retail loans in the Group’s gross loan portfolio from 5.0 per cent. as at 31 December 2017 to 6.4 per cent. as at 31 December 2018, 8.1 per cent. as at 31 December 2019 and 8.0 per cent. as at 30 June 2020.

The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security. The Group maintained NPL coverage ratio of over 100 per cent. in each of 2019, 2018 and 2017. The Bank has also implemented a contemporary control and collection system, which allows it to maintain the high quality of its loan portfolio. See "*Risk Management*". Furthermore, the Bank is currently developing a modern and extensive risk management system tailored to cover the Bank's transition strategy and planned operational and internal control network. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's risk management strategies and procedures are developing and may not be completely effective*" and "*–Strategy–Further development of risk-management system*".

Robust capital position and sound liquidity

The Group benefits from a robust capital base allowing it to pursue its growth plans. The Group's total capital adequacy ratio was 31 per cent., 25 per cent., 18 per cent. and 22 per cent. as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 13 per cent. The Group's tier I capital adequacy ratio was 24 per cent., 20 per cent., 15 per cent. and 16 per cent. as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 10 per cent.

The Group's leverage ratio (calculated as Tier I capital divided by sum of total assets and off-balance sheet assets (obligations to issue loans, letters of credit, guarantees)) amounted to 14.0 per cent., 15.5 per cent., 7.0 per cent. and 7.4 per cent. as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 6 per cent.

The Group also sustains adequate levels of liquidity, including by maintaining a diverse funding base comprising short-term sources of funding (including corporate and retail customer deposits, inter-bank borrowings and borrowings from the foreign banks) and long-term sources of funding (including term corporate deposits, borrowing from international multi-development and international banks, sales and purchases of securities). See "*Financial Review – Funding*".

Broad range of products and diversified banking network with a variety of offline and online channels

The Bank's management believes the range of financial products offered by the Bank is one of the most comprehensive in the Uzbekistan banking market. The Bank offers a full range of credit, financial cash settlement and other banking services in national and foreign currencies. The Bank is focusing on improving quality of service by creating innovative products and becoming a high-tech, agile and resilient bank. In pursuit of its strategy to ensure highest quality of service, the Bank has developed and is implementing the shift towards a client-centric business model based on customer-oriented approach and a combination of conventional and innovative products which suit a broad range of clients. See "*–Strategy–Expansion of product range and shift towards a client-centric model*".

The Bank provides its retail customers with a wide range of banking products through its branch network and online banking channels. As at 30 June 2020, according to CBU, the Bank had one of the most diversified distribution networks in Uzbekistan with included 73 branches, 30 mini-banks, 35 centres for banking services, 105 exchange desks, 38,999 banking terminals, 18 self-service points, 301 ATMs and 332 infodesks and an integrated online banking platform and mobile application. See "*Business–Distribution Network*" below. Through its client-centric product range, large network, online and mobile presence and 24/7 service, the Bank is able to reach a broad customer base which is one of the key building blocks for the planned business expansion.

Developed corporate governance and experienced management with a deep understanding of the local market

The Bank's senior management team is comprised of experienced and highly-qualified professionals with a proven track record of achieving growth and meeting financial performance targets. The Bank's management team has extensive experience in Uzbekistan's banking market with an average of over 18 years' experience in the financial sector and a strong understanding of the local financial services sector as well as the client's needs.

In order to maintain highest level of expertise of its personnel, including the management team, the Bank implements training programmes based on best international practices. The Bank's long-term goal is to maintain and enhance a strong corporate governance profile. The Bank plans to introduce a new corporate governance model for sustainable development based on the best international practices of protection of shareholders rights, independence of the Supervisory Council, transparency of management system and shareholders relations, prevention of corporate conflicts and asset value growth. In 2019, the Bank adopted the revised Code of Corporate Governance, Supervisory Council Code and Management Board Code, implementing best practices and increasing transparency. The Bank's Supervisory Council currently consists of five members, including one independent non-executive director, which was appointed in July 2020. See "*Management*".

Strategy

The Bank's strategic objective is to further strengthen its position as the leading commercial bank in Uzbekistan and become the bank of choice for its customers. The Bank aims to continue providing tailored high-quality corporate and retail banking products and services based on the best international and domestic practices while maintaining strong and sustainable performance and achieving a strategic goal of transformation into a more of a market-orientated and less state-reliant financial institution.

The key pillars of the Bank's strategic development are set out in the Bank's strategy until 2023 (the "**2023 Strategy**"). In accordance with the 2023 Strategy, the Bank endeavours to achieve its transformation through the implementation following stages:

- organisational and technological transformation, while maintaining functionality and reliability of the existing business and IT systems;
- optimising personnel (which includes the elimination of redundant positions and relocation of staff to ensure higher efficiency) for sustainable development of all divisions;
- building convenient and efficient system of multi-channel interaction with customers; and
- introducing new IT platform and transfer of the entire business to it.

The Bank endeavours to achieve the above strategic objective through the implementation of the following targets:

Further diversification of client base and funding sources

One of the main strategic goals of the Bank is to implement large-scale changes within its business, reflecting the Bank's ambition to become more diversified and profitable. To this end, the Bank plans to further diversify and increase its client base by targeting SME, companies with stable fundamentals, companies operating in services sector and home-based enterprises, as well as providing funding in the context of state programmes for the social and economic development of the regions.

As part of its transformation strategy, the Bank intends to gradually decrease the share of state financing in its funding base and to rely instead to a larger extent on other sources of funding, such as syndicated loans from foreign financial institutions and international capital markets including eurobonds and credit linked notes issuances, as well as increase the share of deposits from private companies and retail deposits in its funding base. However, the Bank intends to continue financing certain state projects, such as projects aimed at the development of preschool education, the improvement of housing conditions, the development of the residential mortgage lending market and supporting service sector, in reliance on state funding and backed by state guarantees. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Uzbekistan Government*", "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank faces liquidity and funding risk*", "*Risk Factors–Risks Related to the Group's Business and Industry–The banking sector in Uzbekistan and the Bank are undergoing a transition period*" and "*Risk Factors–Risks Related to the Group's Business and*

Industry–The Bank's strategy is determined by the Uzbekistan Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders".

As at 30 June 2020, the Group's total gross loan portfolio amounted to 62,477,871 million soums, representing an increase of 11.4 per cent. as compared to 31 December 2019. In line with its transition strategy, the Bank focuses on increasing the share of higher-margin loans attributable to developing sectors of Uzbekistan's economy, such as production of electrical household appliances, production of construction metal structures and products, development of the hospitality industry, construction of residential and non-residential buildings, vegetable and fruit cultivation and processing and other industries.

The Bank plans to diversify its funding base primarily by attracting long-term indebtedness in soum. In addition, in order to further diversify the funding sources, the Bank continues to actively develop retail banking. As at 30 June 2020, the Group's balance of amounts due to customers was 16,286,561 million soums, as compared to 15,507,241 million soums, 11,871,894 million soums and 12,110,126 million soums as at 31 December 2019, 2018 and 2017, respectively. The share of amounts due to individuals in the Group's total customer accounts amounted to 24.1 per cent., 23.2 per cent. and 21.4 per cent. as at 31 December 2019, 2018 and 2017, respectively.

Expansion of product range and shift towards a client-centric model

To meet the needs of the clients in a rapidly changing environment and ensure greater customer satisfaction, the Bank seeks to expand its product range by introducing new products and services and pursue a client-centric business model.

In this regard, the Bank expects to broaden its product line by introducing innovative products such as e-commerce MasterCard QR payments and national financial switch ("**NFS**") payments and offering consulting services to exporters. The Bank also seeks to expand the range of banking services offered online by introducing online loans and deposits, online currency conversions and money transfers, online scoring and marketplace e-commerce.

In addition, the Bank is in the process of the implementation of a client-centric approach seeking to structure the business processes around, and tailor its product offering to, its clients and their needs and developing customer-oriented innovative systems. The Bank is focusing on quality of services provided and the convenience of service channels to its clients and is implementing a "one stop shop" approach, allowing clients to access a full spectrum of services they need. In particular, in addition to the conventional banking products, the Bank plans to offer ancillary services, such as legal, accounting, tax, insurance, documentary, brokerage and other services with a view to increase the Group's fee and commission income, attract new clients and increase cross-selling capabilities. As part of the client-centric approach, the Bank seeks to increase its operational efficiency, reduce the product time to market, diversify its distribution network, including the introduction of branches for premium clients and developing quality control systems. In addition, the Bank is currently adapting its branches, ATMs and terminals for people with disabilities and developing standards for providing services to this group of clients, including access to remote banking services via online and mobile banking, card delivery services and electronic document management.

Transformation into a digital bank

The Bank's strategic goal of implementing innovative products is highly dependent on the level of digitalisation and IT infrastructure. Accordingly, investing in IT modernisation, upgrades of software and hardware, mobile and online banking technologies and the introduction of cutting-edge multichannel banking technology in order to achieve greater level of digitalisation of business processes and enhance on-line product offering, is one of the Bank's key strategic priorities. The Bank's management believes that a strong IT platform and high level of digitalisation and automation of certain processes (including, the implementation of automatic credit scoring system) would improve the work efficiency further, which is particularly important in light of the Group's growth plans.

The main priorities of IT transformation are the implementation of big data solutions and digitalisation. Digitalisation will include implementation of a database management unit (data office) and establishment of a digital development division (digital office). The data office will be responsible for the development of a strategy in the area of corporate data, ensuring high precision and completeness of data, overseeing data usage, managing trainings for employees in the area of data management and overseeing data access. The digital office, in its turn, will be responsible for shaping the digital strategy and monitoring its implementation as well as creating a "digital mentality" among managers and employees. The digital transformation will target four areas:

- business support (improvement of in-house activities and corporate content management, financial planning, personnel management, external data transfer and procurement processes);
- risk management and reporting (automation of treasury processes, fraud prevention activities, and introduction of BI (business intelligence));
- sales and distribution channels (implementation of chat-bots, scoring systems and agents and partners network, queue management, digital sales, marketing and customer relationship management, development of online and mobile banking, ATM and terminal management, as well as development of call centres and voice technologies); and
- products and services (implementation of application programming interface ("**API**") management system, business processes management robotisation, digitalisation of payment and settlement systems, overdue debt management and state information systems connectors).

The overall developments will be based on service-oriented IT architecture approach.

In addition, the Bank plans to create a proprietary corporate data storage and a single "operating system" with a view to achieve a significant increase in the share of online sales in the overall sales of products and services and transfer of approximately 70 per cent. of internal workflow and communications with counterparties into a digital form. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion*".

Further development of risk-management system

The Bank maintains a multi-tier independent risk management system designed to prevent business lines from aggressive risk taking and introduce adequate and balanced risk prevention measures across all business lines using in-house expertise and external consultants' resources. To maintain a prudent risk management strategy in the context of a planned business expansion, the Bank intends to continue developing its risk management system in line with the best industry standards, which is expected to involve the rollout of an automated credit scoring model, the upgrade of the credit approval and underwriting systems, liquidity and capital adequacy management systems, implementation of additional risk identification metrics and ensuring risk-oriented approach through the entire business cycle.

Further development of high-quality corporate governance model and retention of qualified personnel

The Bank's strategic goal is to maintain and further develop a strong corporate governance and management model. The Bank is continually improving its corporate governance system by implementing the best domestic and global practices. In 2019, the Bank adopted its Corporate Governance Code to further develop the transparency and efficiency of its corporate governance. Furthermore, as part of its efforts to maintain leading positions in the market, an important strategic goal of the Bank is to improve the professional skillset of its employees. To this end, the Bank plans to cooperate with such Russian entities as Sberbank, Gazprombank and Moscow School of Economics to improve skills and financial acumen of its employees. See "*Business–Employees*".

Commitment to social responsibility and ESG principles

As part of its strategic objective the Bank remains committed to ESG principles and actively participates in various social-oriented projects as well as focuses on the development of corporate and social responsibility. The Bank is financing over 1,000 social projects, including construction of kindergartens and modern sport facilities, construction of affordable housing, development of cotton and fruit and vegetables clusters. In addition, in line with the Presidential initiatives to support the services sector, entrepreneurship and new workplaces, the Bank launched a lower interest rate loan programme offering loans bearing interest rate of 15 per cent. per annum with the maturity of three years.

Following the outbreak of the COVID-19 pandemic, the Bank has initiated the reassessment of its 2023 Strategy to see which adjustments may need to be introduced into its implementation plan. However, the Bank expects the key pillars of the 2023 Strategy to remain unchanged. See "*Risk Factors–Risks Related to the Group's Business and Industry–The implications of the COVID-19 pandemic could have a material adverse effect on the Group's financial condition, results of operations and prospects as well as the value of the Notes*".

OVERVIEW OF THE OFFERING

*The following overview contains basic information about the Notes and is not intended to be complete. For a more complete understanding of the Notes, please refer to the Terms and Conditions of the Notes ("**Conditions**"). Capitalised terms not defined in this section have the meanings given to them in the Conditions.*

Issuer	Joint-Stock Company "National Bank for Foreign Economic Activity of the Republic of Uzbekistan"
Sole Global Coordinator and Joint Bookrunner	Citigroup Global Markets Limited
Joint Bookrunners	Bank GPB International S.A., Natixis and SMBC Nikko Capital Markets Limited
Local Adviser	Joint-Stock Commercial Mortgage Bank "Ipoteka-Bank"
Notes Offered	U.S.$300,000,000 aggregate principal amount of 4.85 per cent. Notes due 2025
Trustee	Citibank, N.A., London Branch
Principal Paying Agent and Transfer Agent	Citibank, N.A., London Branch
Registrar	Citigroup Global Markets Europe AG
Issue Price	100 per cent.
Closing Date	21 October 2020
Maturity Date	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 October 2025
Interest Rate	The Notes bear interest at the rate of 4.85 per cent. per annum payable in equal instalments semi-annually in arrear on 21 April and 21 October in each year, commencing on 21 April 2021
Risk Factors	An investment in the Notes involves a high degree of risk. See "*Risk Factors*".
Use of Proceeds	The Issuer will use the proceeds received from the issue and sale of the Notes for general banking business. For more information, see "*Use of Proceeds*".
Form	The Notes will be in registered form, without interest coupons attached, in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be issued in the form of a Global Note, in registered form and without interest coupons attached. The Global Note will be deposited with the common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary. Ownership interests in the Global Note will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.

Ranking of the Notes	The Notes constitute direct, general, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.
Negative Pledge and Covenants	Conditions contain restrictions on or impose requirements to be complied with when conducting certain activities of the Issuer and its subsidiaries, including, without limitation: (a) limitation on the incurrence of security interest; (b) requirement for the maintenance of capital adequacy and financial ratios; (c) requirement for the provision of certain financial information; (d) limitation on prepayment of subordinated debt and paying dividends on or redeeming or repurchasing share capital or making other distributions; (e) limitations on engaging in mergers and consolidations; (f) limitation on asset sales; (g) limitation on engaging in affiliate transactions; (h) requirement for the maintenance of authorisations; and (i) limitation on change of business. There are significant exceptions to the requirements contained in these covenants, as more fully described in Condition 4 and Condition 5.
Events of Default	If an Event of Default occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Notes are, and that they shall immediately become, due and repayable at their principal amount together with accrued interest, as more fully described in Condition 10.
Optional Redemption for Taxation Reasons	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice, at the principal amount thereof together with accrued and unpaid interest to (but excluding) the date fixed by the Issuer for redemption, if the Issuer is or would be required to pay additional amounts (as defined in the Conditions) (subject to certain conditions) as a result of any change in, or amendment to, the laws or regulations of the Republic of Uzbekistan, occurring on or after the Issue Date as more fully described in Condition 7(b).
Make-Whole Call Option	The Issuer may, at its option, redeem the Notes, in whole but not in part, at any time prior to the date falling three months prior to the

	Maturity Date on giving not less than 30 and not more than 60 days irrevocable notice, at a price equal to the principal amount thereof, plus the Make Whole Premium, plus any accrued and unpaid interest, up to but excluding the date of redemption, as more fully described in Condition 7(c).
Optional Redemption at Par	The Issuer may, at any time on or after the date falling three months prior to the Maturity Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders, redeem the Notes in whole or in part, at the principal amount thereof, together with interest accrued and unpaid and additional amounts (if any) to but excluding the Par Optional Redemption Date (as defined in the Conditions), as more fully described in Condition 7(d).
Optional Redemption by the Noteholders upon a Change of Control	If a Change of Control occurs, the holder of each Note will have the option to require the Issuer to redeem that Note on the Change of Control Put Date at 100 per cent. of its principal amount together with interest accrued to (but excluding) Change of Control Put Date, as more fully described in Condition 7(g).
Withholding Tax	All payments in respect of interest and principal on the Notes will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required, as more fully described in Condition 9.
Listing of Notes	Application has been made to the Financial Conduct Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Market. The Market is a regulated market for the purposes of MiFID II.
Ownership Restrictions	Neither Euroclear nor Clearstream, Luxembourg, will monitor compliance with any transfer or ownership restrictions.
Governing Law and Arbitration	The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with any of them shall be governed by and construed in accordance with English law and contain provisions for arbitration in London, England.
Selling Restrictions	United States, United Kingdom, Uzbekistan, Singapore and any other jurisdiction relevant to the Offering. See "*Subscription and Sale*".
Ratings	It is expected that the Notes will be rated BB- by Fitch and BB- by S&P. S&P is established in the European Union and Fitch is established in the United Kingdom. Each of Fitch and S&P is registered under the CRA Regulation. Fitch defines obligations with a rating of BB as those with "elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time". The modifier

	"-" has been appended to the rating to denote relative status within the rating category. S&P defines obligations with a rating of BB as those "less vulnerable to nonpayment than other speculative issues". The modifier "-" has been appended to the rating to denote relative standing within the rating category. Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. Credit ratings do not relate to the liquidity of the Notes or consider whether there is a market for the Notes. Any change in the credit rating of the Notes or of the Issuer could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Security Identification	International Securities Identification Number ("**ISIN**"): XS2242418957 Common Code: 224241895
Legal Entity Identifier	253400TZJ7T1YULTGN68

RISK FACTORS

An investment in the Notes involves risks. Accordingly, you should carefully consider the risks described below, as well as the other information in this Prospectus, before making an investment decision. The risks and uncertainties below are not the only ones the Group faces. Additional risks and uncertainties not presently known to the Issuer, or that the Issuer currently believes are immaterial, could also impair its business operations. Factors which the Issuer believes are specific to the Issuers, the Group and/or the Notes and material for an informed investment decision with respect to investing in the Notes issued under are described below. In each category below the Issuer set out the most material risks, in its assessment, taking into account the negative impact of such risks on the Issuer and the Group and the probability of their occurrence. If any of the following risks actually materialises, the Group's business, results of operations and financial condition could be materially and adversely affected and it could affect the Issuer's ability to meet its obligations under the Notes.

The risks below have been classified into the following categories:

(i) *Risks Related to the Group's Business and Industry;*

(ii) *Risks Related to the Group's Strategy;*

(iii) *Risks Related to the Group's Legal, Regulatory, Compliance and Governance Framework;*

(iv) *Risks Related to the Republic of Uzbekistan; and*

(v) *Risks Related to the Notes.*

Risks Related to the Group's Business and Industry

The implications of the COVID-19 pandemic could have a material adverse effect on the Group's financial condition, results of operations and prospects as well as the value of the Notes

The outbreak of COVID-19, which emerged in China in late December 2019, has subsequently spread globally and has been declared by the World Health Organisation to be a global pandemic. The COVID-19 pandemic has since caused stock markets worldwide to lose significant value and has impacted economic activity worldwide. Since March 2020, there has been a sharp decrease in global economic growth rate and business activities as a result of measures adopted by the governments to mitigate the impact of COVID-19. The decrease in business activities and a decrease in household income may result in a significant decrease in demand for banking products, as well as decrease the quality of the Group's loan portfolio. In addition, some of the Group's clients are active in the export of goods to Russian, Chinese, Turkish, Kazakh, Bangladeshi and Baltic markets. Accordingly, while the Bank has not seen any significant decrease in export turnover as a result of COVID-19 to date, the tightening of the existing restrictive measures or the introduction of the new ones (in particular, travel, import or export restrictions) by some or all of the governments in order to slow down the spread of the COVID-19 pandemic may negatively affect the business and financial position of such clients, and in turn, the Bank.

In addition, a number of governments and supra-national organisations have revised GDP growth forecasts for 2020 downward in response to the economic slowdown caused by the spread of COVID-19. In particular, the Asian Development Bank has decreased its GDP growth outlook for Uzbekistan in 2020 from 4.7 per cent. to 1.5 per cent. It may also not be entirely excluded that the COVID-19 pandemic will cause a prolonged global economic crisis, recession or depression despite monetary and fiscal interventions by governments and central banks globally. The COVID-19 pandemic has also resulted in restrictions on travel and transportation and prolonged closures of workspaces and business. In particular, the measures implemented by Uzbekistan Government included, amongst others, social distancing, travel and transportation restrictions, remote working for certain groups of employees, suspension of certain business activities. All of these factors may have a material adverse impact on the Group's business, financial condition, results of operations and prospects as well as the value of the Notes.

The overall impact of the COVID-19 pandemic on the Group's business will depend on a range of factors, which the Group is not able to accurately predict, including the duration and scope of the pandemic, the impact on economic activity and the measures adopted by governments to mitigate the impact of COVID-19.

In response to the COVID-19 pandemic, in March 2020, the Ministry of Finance of Uzbekistan created an externally-financed anti-crisis fund of approximately U.S.$1 billion (or approximately 2 per cent. of Uzbekistan's GDP in 2019) to support employment, social spending as well as to sustain business and investment activity.

Other COVID-19 relief measures introduced in Uzbekistan included additional liquidity injections by the CBU to support the banking system and the issue by the CBU of recommendations to Uzbek banks to grant payment holidays and introduce interest rate caps for certain loans and deposits. Pursuant to these recommendations, the commercial banks have been urged to consider:

- granting payment holidays deferring payments of principal and accrued interest until 1 October 2020 under the loans issued to borrowers operating in tourism, hotel and recreation, transportation and other industries which have been negatively affected by the lockdown measures;
- extending working capital revolving credit facilities to entrepreneurs;
- introducing an interest rate cap, from 1 July 2020 until 1 January 2021, for retail deposits at the refinancing rate plus 3 per cent. and corporate deposits at the refinancing rate increased by 1 per cent.; and
- introducing an interest rate cap, from 1 July 2020 until 1 January 2021, for retail loans (microloans) at the refinancing rate plus 9 per cent. and for corporate and individual entrepreneur loans at the refinancing rate plus 6 per cent.

In addition to the above, the CBU has promulgated an exemption whereby Uzbek banks could opt out of classifying certain loans as impaired and, therefore, elect not to create additional provisions for them which the Group has availed itself of. While this measure seeks to support the banking sector during the COVID-19 pandemic, any large-scale and/or extended application thereof could raise concerns around the adequacy of provision coverage in the banking system of Uzbekistan.

Furthermore, as part of the COVID-19 relief measures, the CBU also eased certain mandatory reserves requirements, in particular, by increasing the reserve discount ratio from 0.35 to 0.75 with effect from 15 June 2020. In addition, the Uzbekistan Government offered interest payment subsidies for certain soum-denominated investment loans and working capital loans, introduced targeted temporary tax relief for enterprises which were adversely affected by the COVID-19 pandemic and implemented a temporary ban on charging commissions on tax payments.

In line with the CBU recommendations discussed above, the Bank has granted payment holidays to certain borrowers deferring payments of principal and accrued interest until 1 October 2020. According to the Bank's management estimates, as at 30 June 2020, the aggregate amount of loans in the Group's loan portfolio which were subject to payment holidays was approximately 5 per cent. of the Group's gross loans to customers. While the Bank's management believes that so far the above measures have had a limited impact on the Group's business and are expressed to apply for a limited period of time (with some of these measures having ceased to be in effect starting from 1 October 2020), there could be no assurance that such measures would not be extended further or that the new measures would not be implemented in response to COVID-19 which, if more restrictive, could have a more pronounced effect on the Group's clients and/or the Group's financial position and results of operations.

Against the backdrop of the COVID-19 outbreak, the gross carrying value of the Group's loans classified as Stage 2 loans increased by 207.8 per cent. from 729,994 million soums as at 31 December 2019 to 2,246,793 million soums as at 30 June 2020 whereas the gross carrying value of the Group's loans classified as Stage 3 loans (i.e. loans considered credit-impaired) decreased by 40.9 per cent. from 1,811,692 million soums as at 31 December 2019 to 1,070,704 million soums as at 30 June 2020 primarily due to their repayment.

In addition, the Group's allowance for impairment of loans to customers increased by 36.0 per cent. as at 30 June 2020 as compared to 31 December 2019 from 1,903,350 million soums to 2,588,283 million soums primarily due to the Group taking a more conservative approach to risk weighting and expected credit loss ("**ECL**") assessment in light of the changing macroeconomic environment amid COVID-19 concerns. As a result, the Group's credit loss expense increased by 190,396 million soums for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 which accounted for 78.6 per cent. of the overall increase in the Group's credit loss expense for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019. In addition, the above movements resulted in the increase of Problem Loans to Gross loans ratio and the Allowance for impairment to Gross loans ratio, in each case as at 30 June 2020 as compared to 31 December 2019. See "*Financial Review–Factors Affecting the Financial Statements– COVID-19 Outbreak*".

The Bank's management continues to closely monitor the development of the COVID-19 pandemic and its impact on the Group's business. In particular, against the background of the COVID-19 pandemic, the Bank has initiated the reassessment of its 2023 Strategy to see which adjustments may need to be introduced into its implementation plan. In addition, in light of the slowdown of activity caused by COVID-19, the Group has adjusted some of its financial targets for 2020 downwards, in particular profit before income tax expense and loan and deposits portfolio. Depending on the duration and magnitude of COVID-19, it may be the case that the COVID-19 pandemic could have a negative and possibly prolonged impact on the global banking system, which, in turn, could have a material adverse effect on the Group's financial condition, results of operations and prospects as well as the value of the Notes.

The banking sector in Uzbekistan and the Bank are undergoing a transition period

Since 2018, as part of on-going economic reforms in Uzbekistan, the banking sector has been undergoing a transitional reform to shift from a model based on state control, support and funding towards a more market-orientated and commercial model. In line with such reform, the Uzbekistan Government has been gradually decreasing its influence on the business of certain state-owned banks. Accordingly, in line with the spirit of the reforms, the Bank intends to decrease gradually the share of state financing in its funding base and, instead, to rely to a larger extent on other sources of funding, such as syndicated loans from foreign financial institutions and international capital markets, including eurobonds and credit lined notes issuances. Furthermore, the Bank is taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of Uzbekistan's economy, as well as to further develop its long-standing relationships with large corporate clients in the manufacturing, transport and communication, commerce and other sectors on more commercial and market orientated terms.

However, in line with the general economic reforms in Uzbekistan, many of the Bank's existing corporate clients are undergoing either privatisations or similar transition processes, which are expected to result, among other things, both in these corporate clients experiencing volatility in their businesses and having to obtain funding on commercial market terms. There can be no assurance that following the transition of the Bank towards a more market based pricing policy and reduction of state support, long-term corporate clients of the Bank, who previously benefitted from state guarantees provided in respect of their borrowings but are unlikely to do so going forward, will retain their low-risk credit profile nor can there be any assurance that, following clients' privatisation or transition to more independent management, the credit profiles of such corporate clients will not be negatively affected or such existing corporate clients would not attract financing from or place their deposits with the Bank's competitors offering better terms on banking products.

The transition of the Bank and the banking industry generally to a more market-orientated and commercial model is also likely to result in increased competition for the Bank with other state-owned banks, foreign and private banks for the same client base. See "*–The Bank operates in a competitive industry*" below. Moreover, expansion of the Bank's client base to new industries and sectors entails an additional degree of operational and credit risk, as the Bank may not have sufficient expertise, procedures and resources to adequately evaluate and assess creditworthiness of new types of customers, including retail and new sectors. See "*–The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion*" and "*–The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio*" below.

Furthermore, as the transitional strategy of the Bank is in its early stages and is expected to take at least three years to complete given a number of internal, market and macroeconomic risks associated with such transition, there can be no assurance that the Bank will succeed in implementation of all the necessary stages of transformation (in time or at all) or achieve the growth or profitability that it would expect. Failure to implement its transition strategy could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank and some of its customers would be adversely affected if they cease to receive capital support from the Uzbekistan Government

In terms of both funding and income, the Bank and some of its main state-owned corporate clients have been historically reliant on the Uzbekistan Government. The Uzbekistan Government has been and remains a very significant source of the Bank's funding, as well as the ultimate controlling entity in respect of major clients of the Bank, such as Uzbekistan Temir Yollari, Uzbekistan Airways, NHC "Uzbekneftegaz", JSC UzTransGaz, Navoi Mining and Metallurgical Plant and JSC "Uzbekhydroenergo".

In 2018, the Bank received an interest free loan from Government in the aggregate principal amount of 548,677 million soums. Gain from the initial recognition of this borrowing has been recognised as additional equity contribution made by the Government for total amount of 126,096 million soums. Historically, a substantial part of the Bank's loan book was subsidised by the Government and covered by the state guarantees, which supported the Bank's portfolio quality and reduced credit risk. See "*Business–Competitive Strengths–History of strong shareholder support*" and "*Financial Review—Factors Affecting the Financial Statements–Non-compliance with certain covenants in the Bank's financing agreement with the Republic of Uzbekistan*". A material decrease in guaranteed loans subsidised by the Government is likely to increase the Bank's credit and interest rate risk exposure. See "*–The Bank's operations are subject to various market risks*", "*–The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio*" and *"–The banking sector in Uzbekistan and the Bank are undergoing a transition period*".

As such, during the period under review, the Bank received substantial funding from the Uzbekistan Government to fund loans to the Bank's major clients. However, if the Uzbekistan Government were to reduce or cease its funding of the Bank in the future or change the terms or basis of such funding, including the degree of subsidisation or not make any further capital injections, these events could have a material adverse effect of the Bank's business, results of operations, financial condition and prospects. Furthermore, absence of sufficient funding from the Uzbekistan Government may hinder the Bank's ability to implement its growth strategy successfully and in a timely manner. See "*–Risks Related to the Group's Strategy–The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion*". Similarly, any unplanned or unexpected reduction in state funding to any of the Bank's state-owned customers or radical shift in government policy towards the Bank resulting in the loss of the state-owned customers may result in a decrease in operational volumes for the Bank or failure of such customers to serve their obligations under the existing loans and other arrangements with the Bank, which could in turn have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

In addition, reduced support or participation from the Government may also adversely affect credit ratings of the Bank and/or the Bank's state-owned customers, hindering their ability to attract funding on the local and international capital markets at favourable terms, which could in turn have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank operates in a competitive industry

In recent years, Uzbekistan's banking sector has become increasingly competitive. According to the CBU, as at 30 June 2020, there were 31 commercial banks operating in Uzbekistan. The Bank competes with a number of these banks, including JSC SQB, JSC Asaka bank, JSC Ipoteka bank, JSC Agrobank and JSC Hamkorbank in corporate banking segment, JSC Hamkorbank, JSC Kapitalbank, JSC SQB and JSC Ipoteka bank in retail segment and JSC SQB, JSC Asaka bank and JSC Ipoteka bank in investment banking segment. In addition, the mortgage market is highly competitive in Uzbekistan, with some competitors implementing aggressive pricing policies in order to retain or build their market share. Furthermore, according to the CBU, as at 30 June 2020, there were seven banks with foreign capital in Uzbekistan, which, following the liberalisation of the economy and transitional development of the banking sector, pose an increased competitive challenge for the local market. Although the Bank believes it continues to offer highly competitive products for its customers and has a number of competitive advantages over its peers, there can be no assurance that the Bank's customers will not transfer a significant portion of their deposits and/or loans to one or more of the Bank's competitors or that the Bank will gain a share of new customers in the market which corresponds to its growth plans.

Increased competition may have a negative impact on the Bank, particularly if the Bank's competitors benefit from stronger financial resources, have access to cheaper funding, offer a broader range of products or if the Bank's competitors merged to significantly enhance their financial resources, access to funding and product offerings. In addition, if the Bank and its competitors pursue the same market sectors or implement similar marketing, sales and/or distribution strategies, this could decrease the demand for the Bank’s products and/or may force the Bank to reduce profit margins.

Accordingly, an increase in competition could lead to significant pressure on the Bank's market share and has already led to, and may, in the future, continue to lead to, increased pricing pressures on the Bank's products and services, which could in turn have a material adverse effect on the Bank's business results of operations, financial condition and prospects.

The Group's corporate loan portfolio is exposed to client, geographical and industry concentration

The Group’s largest corporate customers include state-owned enterprises like Uzbekistan Temir Yollari, Uzbekistan Airways, NHC "Uzbekneftegaz", JSC UzTransGaz, Navoi Mining and Metallurgical Plant and JSC "Uzbekhydroenergo", which have long history of cooperation with the Bank mainly as a result of subsidised funding provided to these companies by the Government through the Bank. As a result, the corporate loan portfolio of the Bank is concentrated. The Group’s top ten corporate borrowers (which comprise eight state-owned companies and two private companies) accounted for 46 per cent. of the gross loan portfolio as at 30 June 2020, as compared to 49 per cent. as at 31 December 2019, 60 per cent. as at 31 December 2018 and 67 per cent. as at 31 December 2017. As at 30 June 2020, 31 December 2019, 2018 and 2017, 42.3 per cent., 45.9 per cent., 54.8 per cent. and 60.9 per cent., respectively, of overall loan portfolio was covered by state guarantees. As at 30 June 2020, 31 December 2019, 2018 and 2017, a significant amount of loans was granted to companies operating in the Republic of Uzbekistan, which represents a significant geographical concentration in one region.

The majority of the Group’s major customers operate in the manufacturing, transport and communication sectors. The share of these sectors in the Group’s gross loan portfolio amounted to 59.7 per cent. as at 31 December 2019, 71 per cent. as at 31 December 2018 and 72 per cent. as at 31 December 2017. The Group’s financial condition is sensitive to volatility and downturns in the industry sectors in which its loans are concentrated. Accordingly, the Group’s significant exposure to the manufacturing, transport and communication sectors, combined with any downturn or adverse trends in these sectors, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Bank also aims to mitigate the risk of credit losses from large exposures by using collateral to minimise loss given default on its largest exposures, reducing guarantee exposures and seeking to diversify its loan book. There can be no assurance, however, that any such measures will be successful or adequate to the risks they are intended to cover. In addition, microeconomic shocks or industry-specific fluctuations may adversely affect the quality and price of collateral in respect of the Bank's loan portfolio, for example real estate in Uzbekistan. See "*–Collateral values may decline or may not be of such high credit value*" and "*–Risks Related to Republic of Uzbekistan–The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*". Any loss of a key corporate borrower or deterioration in the quality of the Bank's corporate loan portfolio could, in turn, have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's loan portfolio is heavily U.S. dollar denominated, and the quality of the Group's loan portfolio may deteriorate as a result of slower economic growth and depreciations and devaluations of the soum against the U.S. dollar or other foreign currencies

As at 31 December 2019, 65.2 per cent. of the Group's loans to customers were denominated in foreign currency (predominantly U.S. dollars). In 2017, the CBU, in pursuit of liberalisation of the currency market in Uzbekistan, devalued the soum against the U.S. dollar by about 92 per cent., resulting in the depreciation of the soum from 4,210.35 soums per U.S.$1 to 8,100 soums per U.S.$1. Any further depreciation of the soum against the U.S. dollar may result in customers having difficulty repaying their loans. Accordingly, should the share of unsecured higher-margin foreign-currency loans in the Bank's portfolio increase significantly in the future, this could result in the increase of the credit risk of the portfolio

In addition, fluctuations of the soum against the U.S. dollar may cause the value of the Bank's loan portfolio to fluctuate. Accordingly, should a significant portion of the Bank's customers with foreign currency-denominated loans depend on soum-denominated income, any depreciation of the soum against the currency of the loan may result in customers facing difficulties repaying their loans. Furthermore, any depreciation of the soum against the U.S. dollar or other foreign currencies, and any future devaluations in the currencies of Uzbekistan's neighbouring countries (including countries forming part of the CIS, and specifically including Russia) may adversely affect the financial condition of the Bank, as well as the Bank's ability to repay its debt denominated in currencies other than the soum, including amounts due under the Notes. Any of these events could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to operational risk inherent in banking activities

The Bank is subject to the risk of incurring losses or undue costs due to the inadequacy or failure of internal processes or systems or human error, or from errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets. The financial services industry is exposed to the risk of misconduct by employees, which could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines, as well as serious reputational or financial harm for the Bank. The proper functioning of banking systems, risk management, internal controls, accounting, customer service and other information technology systems, such as loan origination, are critical to the Bank's operations.

Although the management believes that the Bank's risk management policies and procedures are adequate and that the Bank is currently in compliance in all material respects with all laws, standards and recommendations applicable to it, any failure of the Bank's risk management system to detect unidentified or unanticipated risks, or to correct operational risks, or any failure of third parties to adequately perform key outsourced activities, such as card processing and the transportation of cash, could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank faces liquidity and funding risk

The Bank is exposed to liquidity risk when the maturities of its assets and liabilities do not coincide. Liquidity risk is inherent in banking operations and may be heightened by a number of factors, including an over-reliance on, or an inability to access, a particular source of funding, changes in credit ratings or market-wide phenomena, such as financial market instability. Credit markets worldwide have in recent years experienced, and may continue to experience, a reduction in liquidity and long-term funding as a result of global economic and financial factors. The availability of credit in emerging markets in particular, is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence could affect the price or availability of funding for the Bank.

Other borrowed funds is the main source of funding for the Bank and amounted to 62.3 per cent. of the Group's total liabilities as at 30 June 2020. The Bank has several open credit lines with international financial organisations, see "*Financial Review–Funding*". However, the Bank may face increased cost of funding and shortage in available liquidity should the Bank breach its covenants under the existing borrowing facilities. See "*–The Bank is required to comply with certain financial and other restrictive covenants*" below. Further, a significant portion of the Group's funding is derived from customer deposits, accounting for 27.1 per cent. of the Bank's total liabilities as at 30 June 2020. According to Uzbekistan law, term deposits may be withdrawn by individual depositors at any time. Accordingly, there can be no assurance that if unexpected withdrawals of deposits by the Bank's customers result in liquidity gaps, the Bank will be able to cover such gaps. In the event of any downturn in confidence in the Bank or the banking sector in Uzbekistan in general, customers could seek to withdraw their deposits and consequently the Bank may not have the necessary funds to meet its liabilities as they fall due, which will have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, as at 31 December 2019, 67.9 per cent. of the Group's customer accounts were denominated in foreign currencies. Accordingly, should soum depreciate significantly against U.S. dollar and other foreign currency due to macroeconomic or political events, the Bank's customer accounts may increase in soum terms, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank seeks to manage its liquidity risk by, among other things, maintaining a diverse funding base comprising short-term sources of funding (including corporate and retail customer deposits, inter-bank borrowings and borrowings from the foreign banks) and longer-term sources of funding (including term corporate deposits, borrowing from international multi-development and international banks, sales and purchases of securities). Also, historically, the Bank in its day-to-day operations relied significantly on liquidity provided by the Uzbekistan Government. See "*Business–Competitive Strengths–History of strong shareholder support*". In line with its strategy, the Bank intends to diversify its funding and liquidity base, attracting funds from customer accounts, the interbank lending market and international capital markets and continuing to attract governmental funding. However, these liquidity sources and the Bank's current liquidity may be affected by unfavourable financial market conditions. If assets held by the Bank to provide liquidity become illiquid or devalue substantially, the Bank may be required, or may choose, to rely on other sources of funding to finance its operations and future growth. Only a limited amount of funding, however, is available in Uzbekistan's inter-bank market, and recourse to other funding sources may pose additional risks, including the possibility that other funding sources may be more expensive and less flexible. In addition, the cost of funding in Uzbekistan may significantly increase in the case of unfavourable financial market conditions, economic reforms implemented by the Uzbekistan Government or other macroeconomic changes. In June 2017, the CBU's main policy interest rate (the "**refinancing rate**") increased significantly from 9.0 per cent. as at 27 June 2017 to 14.0 per cent. as at 28 June 2017, leading to growth of interest rates on the interbank money market. As at both 31 December 2019 and 2018, the CBU's refinancing rate was 16.0 per cent. compared to 14.0 per cent. as at 31 December 2017. Effective from 15 April 2020, the refinancing rate is set at 15.0 per cent. Following the increase in the refinancing rate, the average interest rate on the interbank money market grew from 13.1 per cent. in 2017 to 14.9 per cent. in 2018 and to 15.2 per cent. in 2019, thus increasing the cost of funding for the Bank on the local inter-bank lending market. Should the cost of funds on the inter-bank lending market further increase and the availability of this source of funding to the Bank diminish, or should the Bank fail to procure timely sources of other funding at market rates, it may hinder the Bank's ability to service its liabilities and have a material adverse effect on its business, financial condition, results of operations and prospects. See *"Financial Review–Factors Affecting the Financial Statements–Negative Liquidity Gap"*.

The Bank's operations are subject to various market risks

Assets and liabilities of the Group are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. As at 31 December 2019, 34.8 per cent. of the Group's gross loans to customers were denominated in soums, 51.5 per cent. in U.S. dollars and the remaining 13.7 per cent. in other currencies. While the Bank seeks to utilise a natural hedge policy to mitigate the currency risk, issuing loans in foreign currencies only to borrowers with stable foreign currency revenues, should the Bank provide loans in foreign currencies to a wider category of borrowers in future for competitive pressure reasons or otherwise, the volatility in the money market and significant exchange rate fluctuations may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects. See "*Financial Review–Factors Affecting the Financial Statements–Currency Fluctuations*" and "*Risk Management*".

The Bank faces interest rate risk resulting from movements in interest rates that affect income or the value of financial instruments. For example, instruments on both the asset and liability side may exhibit different sensitivities to changes in interest rates, including changes in long-term and short-term interest rates relative to one another. If, for example, interest rates were to rise, this could negatively affect the value of the Bank assets with longer tenors that may have relatively lower fixed interest rates locked up until maturity relative to possible liabilities with shorter tenors. Accordingly, the Bank could become subject to interest rate movements on both domestic and international markets which may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank may face counterparty, systemic or contagion risk from other financial institutions

Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediates, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Bank interacts on a daily basis. The Bank routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks, resulting in significant credit concentration. As a result, the Bank is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. This could, in turn, have a material adverse effect on the Bank's ability to raise new funds and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Moreover, problems at certain financial institutions in Uzbekistan or in other countries could cause general market concerns over the health of financial institutions. Moreover, these problems could lead to reduced access to liquidity and funding for financial institutions and/or decline in the value of their debt or equity instruments, possibly including the Notes, such risk being sometimes referred to as "contagion effect". A default by, or even concerns about the stability of one or more financial service institutions, including institutions to which the Bank may not have direct exposure, or which may not even be among its counterparties, could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions that could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The Bank may not be able to accurately assess the credit risk of potential and current borrowers or maintain the quality of its loan portfolio

Credit risk assessment is generally more difficult for Uzbekistan's banks than for banks operating in certain other jurisdictions due to the scarcity of reliable information in Uzbekistan about potential borrowers. In particular, it is difficult to make long-term forecasts with respect to a corporate borrower's financial position because the financial performance of Uzbekistan companies is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Further, many potential corporate borrowers do not prepare audited accounts in accordance with IFRS and/or do not have extensive or externally verified credit histories. In addition, the availability of accurate and comprehensive financial and general credit information on SME in Uzbekistan is even more limited, which makes it more difficult for the Bank to accurately assess the credit risk associated with such lending. The Bank periodically reviews its credit policies designed to manage the risk. The Bank's Credit Committees set counterparty limits by the use of a credit risk classification and scoring system and approve individual transactions. The credit quality review process is continuous and provides early identification of possible changes in the creditworthiness of customers, including regular collateral revaluations, potential losses and corrective actions needed to reduce risk, which may include obtaining additional collateral in accordance with underlying loan agreements.

In extending retail loans, the Bank makes approval decisions based on information derived from various sources, including data provided by the borrowers, as well as data provided by third parties (such as the Bureau of Credit Histories (the "**Bureau**") and the borrower's employer). However, the Bureau has been formed only recently and the information provided by the Bureau might not be complete, reliable or up-to-date. In addition, there is a risk that the Bank's procedures and controls employed in loan origination and verification, especially those which continue to be operated in a manual mode, such as the Bank's existing scoring system, may generate errors or may not be capable of identifying all risks inherent to the loan origination process, including as a result of the lack of historic data. In addition, the Bank's officers may fail to adhere to compliance procedures, which may lead to incorrect assessments of the level of risk of particular retail borrowers. The Bank may also be unable to accurately evaluate the current financial condition of each prospective borrower or independently assess information provided by prospective borrowers, and thus may be unable to determine the long-term economic outlook for each such borrower. Furthermore, the limited availability of recent and reliable credit information on retail and SME borrowers constrains the Bank's ability to detect and prevent fraudulent activities by potential borrowers, including the use of false information in order to obtain loans, which could lead in decreased loan recovery for the Bank.

In addition, a substantial portion of the Bank's retail loans has historically been extended to employees of its corporate clients. As a consequence, it may be more difficult for the Bank to monitor and assess the financial standing of those retail customers who are not the employees of the Bank's existing corporate clients. Moreover, the creditworthiness of Bank's borrowers might be impacted by the consequences of COVID-19 pandemic, such as increased levels of unemployment and/or decrease in revenue or disposable income.

Notwithstanding the risk assessment procedures and systems that the Bank has in place, there is no assurance that such procedures and systems, credit loss allowance and supporting collateral will be sufficient to protect the Bank against increased levels of defaults, losses or potential write-offs. Furthermore, the quality of the Bank's loan portfolio may deteriorate due to external factors beyond the Bank's control such as negative developments in Uzbekistan's economy or in the economies of its neighbouring countries, the unavailability or limited availability of credit information on certain of its customers, as well as any failure of its risk management procedures or rapid expansion of its loan portfolio. See "*–The Bank's risk management strategies and procedures are developing and may not be completely effective*" and "*The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions"*.

Failure to properly assess the risk of potential borrowers or deterioration in the financial condition of a significant number of the Bank's corporate or retail customers and any future deterioration in the quality of the loan portfolio or increase in its loan impairment charges may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's risk management strategies and procedures are developing and may not be completely effective

Although the Bank invests substantial time and effort in its risk management strategies and procedures, and is currently developing a modern and extensive risk management system tailored to cover the Bank's transition strategy and planned operational and internal control network, such strategies and procedures for risk management may nevertheless fail under certain circumstances, particularly when confronted with risks that it has not identified or anticipated. Further, there is no assurance that the Bank will succeed in the development and implementation of the updated risk management systems at a pace corresponding to the growth of the Bank's business and that any delays in such implementations will not limit the Bank's ability to develop and expand its business. In addition, the Bank's risk management methods may lack observations of historical market behaviour traditionally used as a base for risk management procedures due to limited availability of historic information. The Bank collects statistical information from CIS banking markets and applies statistical techniques to these observations to arrive at quantifications of its market risk exposures. See "*–The Bank is subject to operational risk inherent in banking activities", "–The Bank faces liquidity and funding risk"* and "*–The Bank's operations are subject to various market risks*". In developing its statistical models, the Bank may not identify or anticipate certain circumstances and quantifications and may not take all risks into account. Moreover, there is no assurance that the Bank's risk management model will always be efficient. If the Bank's measures to assess and mitigate risks prove insufficient or inaccurate, its losses may be greater than expected and this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion

The Bank is subject to cyber-security threats, such as data leakage, insider threat and privilege abuse, cyber intrusion, network attacks, and targeted advance email attacks. Although cyber-security threats have not materially affected the Bank's operations to date, it is expected that such threats will continue to exist, which will require the Bank to closely monitor such threats.

The Bank has invested in upgrading its technologies, centralising its information systems and controlling the operation of its hardware and software, taking into account international best practices. In addition, the contemplated implementation of the transition strategy of the Bank and introduction of the more sophisticated risk management systems to the Bank's IT systems and procedures are expected to require significant development of the Bank's IT capabilities, both for internal management of the Bank's operations and for the digital products and services for the Bank's clients. However, the Bank cannot provide any assurance that its IT systems will be sufficiently developed and will continue to function in a manner that pre-empts significant disruptions or temporary loss of functionality, and the possibility of a systems failure that may adversely affect its operational activities and financial performance cannot be eliminated. Moreover, due to the rapid pace of development of financial technology and systems, which may render certain existing technology, equipment and systems obsolete, there can be no assurance that Bank's IT systems will at all times be as modern or as efficient as systems used by other financial institutions and competitors.

Further, the Bank's ability to operate its business depends on its ability to protect the computer systems and databases it operates and uses to inhibit the intrusion of third parties who may attempt to gain access to the Bank's computer systems, networks or databases through the Internet or otherwise. Although the Bank believes that its computer systems, networks and databases are well protected from unauthorised access, given the potential technical and financial resources of intruders, full assurance cannot be given that its computer systems, networks and databases will not suffer from such attacks in the future.

In addition, the Bank develops the majority of its IT core systems software (including core banking software, Internet, mobile banking, and human resources software) with the assistance of Fido Business LLC, which as an independent company. The availability of Fido Business LLC's services to the Bank may be negatively affected by a number of factors, some of which are beyond the control of the Bank, including business interruptions, allocation of services to other purchasers, fluctuations in prices and increased costs. Should the Bank's relationship with Fido Business LLC deteriorate, or should any contracts with Fido Business LLC not be renewed or entered into on a timely basis or on commercially acceptable terms, or at all, the Bank's ability to operate its business may be adversely affected.

Also, given the operational growth of the Bank in the reporting period, should the Bank's business volumes continue to grow at a rapid pace, it could lead to significant increases in the utilisation of its IT systems, to a point where capacity limits could be reached and the systems would be unable to adequately support further growth. In addition, in line with its strategy, the Bank is increasing digitalisation and implementing new digital-based solutions which are particularly reliant on IT infrastructure and are sensitive to IT failures. A failure of the Bank's IT systems to adequately support its operations and the growth of its business and to enable it to monitor and manage its operations effectively could result in a material adverse effect on its business, financial condition, results of operations and prospects.

Risks relating to financial reporting

As with many other banks in Uzbekistan and other CIS countries, the Bank's current system of internal financial reporting was not originally designed for the preparation of IFRS-based financial statements, leading to potential inaccuracies in the production of financial statements under IFRS. Preparation of the Bank's IFRS-based financial statements is a manual process that involves the transformation and reclassification of the Bank's statutory financial statements into IFRS through accounting adjustments, and requires an on-going review and update of applicable IFRS and related pronouncements that should be applied to the underlying Uzbekistan GAAP. This process is complicated, time-consuming and requires significant attention from the Bank's senior accounting personnel. Notwithstanding the above, the Bank has been preparing its annual financial statements in accordance with the IFRS reporting standards over 20 years and intends to continue doing so in the future in line with its continuing obligations in accordance with the Listing Rules as an Issuer with Notes listed on the Official List. The Bank's management is taking several steps to implement international standards by, in particular, engaging external consultants, improving its internal control and reporting procedures, including increasing operational effectiveness and the introduction of modern IT solutions. Any failure in the Bank's attempts to improve its internal control and reporting procedures, or any failure of its existing systems, may impact the Bank's operations, including its ability to report its financial performance in an accurate and timely manner, and consequently may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Collateral values may decline or may not be of such high credit value

As at 30 June 2020, the Bank held collateral against gross loans covering substantially all of the value of total gross loans. The main forms of collateral are mortgages, corporate and state guarantees, pledge of inventory, deposits and securities and insurance policies. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Bank's customers operate and downturns in the insurance industry may result in asset illiquidity and a decline in the value of the collateral securing loans. In addition, declining or unstable prices of collateral in Uzbekistan may make it difficult for the Bank to accurately value the collateral it holds. If the fair value of the collateral that the Bank holds declines significantly, it could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans.

In addition, as part of its transition strategy to gradually decrease state support and expand the share of higher-margin loans in its portfolio, the share of the Bank's loan portfolio covered by state guarantees is expected to decrease in the future, which may lead to additional provisions and lower than expected recovery levels on loans. Furthermore, the Bank may face difficulties with enforcing security under Uzbekistan law, which may also lead lower than expected recovery levels on collateralised loans. See "*Risk Management–Collateral*". If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's insurance policies may not cover, or fully cover, certain types of losses

The Bank generally maintains insurance policies covering its assets, operations and certain employees in line with general business practices in Uzbekistan, including a comprehensive insurance policy with highly rated Uzbek insurance companies. The Bank seeks to insure against a range of risks, including fire, lightning, flooding, employee liability and employee fraud. However, there can be no assurance that all types of potential losses are insured or that policy limits would be adequate to cover them. Any uninsured loss or a loss in excess of insured limits could adversely affect the Bank's existing operations and create additional significant costs and liabilities and could, in turn, have a material adverse effect on the business, financial condition, results of operations and prospects.

The Bank depends on key management and qualified personnel

The current senior management team includes a number of individuals that the Bank believes contribute significant experience and expertise in the banking industry. The Bank's ability to continue to retain, motivate and attract qualified and experienced banking and management personnel is vital to its business. Further, following the on-going transition to independent operations from state direction, client diversification and the active development of Uzbekistan's banking sector, there is currently an intense competition in Uzbekistan banking industry for personnel with relevant expertise. There can be no assurance that the Bank will be able to successfully recruit and retain the necessary qualified personnel. The loss or diminution in the services of members of its senior management team or an inability to recruit, train or retain necessary personnel could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects as well as impair its ability to achieve its strategic objectives.

The Bank may fail to receive corporate approval in respect of certain transactions with related parties

In the past, the Bank has engaged in transactions with related parties. See "*Certain Transactions with Related Parties*". The Bank's management expects that the Group will continue to enter into related party transactions in the future. Under the laws and regulations of Uzbekistan, certain related party transactions (including where at least one member of the Supervisory Council is deemed to be an interested party) are required to be approved by the general shareholders meeting of the Bank or its Supervisory Council prior to execution of such transactions. If two or more members of the Bank's Supervisory Council are deemed to be an interested party and/or beneficiary of a related party transaction or if such transaction's value exceeds 50 per cent. of the Bank's net assets, such transaction shall be approved by the general shareholders meeting of the Bank. Failure to receive such approval may lead to invalidity of the transaction. In addition, failure to receive an approval and enter into a material related party transaction, such as a loan or deposit from/to the state agency or a state-owned company, could have an adverse effect on the Bank's business, results of operations, financial condition and prospects.

Risks Related to the Group's Strategy

The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion

The Bank aims to achieve long-term sustainable growth and profitability of its business by transfer to customer-centric model, implementation of modern information technologies and optimisation of business processes. There can be no assurance, however, that the Bank will be able to achieve its major strategic objectives, including increasing its revenue or profitability. The Bank's ability to achieve its strategic objectives may be adversely affected by a number of factors, including negative trends in Uzbekistan's economy, the economies of neighbouring countries and the performance of the global economy.

The Bank's strategic focus has historically been on investment financing. In line with its strategy, the Bank plans to continue focusing its lending business on large investment projects in priority sectors of the economy, as well as increase the share of retail and SME banking. While the growth of the Bank's retail and SME loan portfolio diversifies its overall loan portfolio, it also tends to increase the credit risk exposure in the loan portfolio, reflecting the high-risk nature of retail clients and respective lending products as well as the generally more limited information available to assess the credit worthiness of such borrowers. A greater degree of risk of default by such customers may result in an increase in overdue amounts and, consequently, in higher loan impairment provisions as well as negatively affect the Bank's profitability.

In addition, the predominant part of the Bank's loan portfolio has historically contained a low degree of risk and was covered by state guarantees. Thus, with such increased exposure to credit risk as the Bank seeks to expand its business to both SME and retail customers and the ceasing of state guarantees, the Bank's risk management, internal control and operational capabilities may not be sufficient for such growth in the Bank's business under such strategy. The ability of the Bank to grow its customer base and expand its loan portfolio will depend on, amongst other things, the successful implementation of its credit policies, credit scoring models and provisioning procedures, especially in retail lending, as well as the availability of affordable funding and maintaining its capital adequacy. Should the Bank fail to successfully implement such policies and procedures or maintain its capital adequacy or should affordable funding not be available, this may have material adverse consequences to its business, results of operations, financial condition and prospects. See "*–Risks Related to the Group's Business and Industry–The Bank's risk management strategies and procedures are developing and may not be completely effective*".

Furthermore, the level of trust in the Uzbekistan banking system from the population is currently low, and growth of the Bank's retail portfolio is dependent on increasing consumer understanding and acceptance of credit products, particularly in smaller population centres outside of Tashkent. Sustainable development of consumer finance in Uzbekistan is dependent on economic stability and growth, increases in consumers' average disposable income and levels of consumer spending, which are linked to stable economic development of Uzbekistan. Therefore, external shocks or downturns in Uzbekistan's economy generally and banking and consumer finance sectors in particular may hinder the Bank's ability to implement its growth strategy, which may in turn have material adverse consequences to its business, results of operations, financial condition and prospects. See "*–Risks Related to Republic of Uzbekistan–The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions*".

In addition, the Bank's strategic objectives are based, in part, on the expectation that Uzbekistan's banking sector will continue to grow in general and with respect to retail and SME banking in particular. There can be no assurance that these expectations will be met, which could, in turn, adversely affect the Bank's ability to achieve its objectives.

Notwithstanding the strategic aims, the Bank's overall goal is profitability and accordingly, it may not fulfil certain growth strategic goals if doing so would result in a negative impact on profitability. There can also be no assurance that the anticipated growth in retail and SME loans will offset any deterioration in the quality of the Bank's loan portfolio. Furthermore, the Bank's expansion strategy is expected to be financed by attracting more deposits (including retail deposits and deposits from private companies), additional borrowings (including in the international capital markets) and possibly additional capital, as well as cash flows provided by operations. However, external financing and the cost of such financing are dependent on numerous factors, many of which are outside of the Bank's control. The Bank cannot provide any assurance that it will be able to arrange any such external financing on commercially reasonable terms, if at all, and the Bank's inability to access such funding at favourable rates could adversely affect its ability to implement its strategy. If any of these risks materialise, they could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

The Bank's strategy is determined by the Uzbekistan Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders

As at the date of this Prospectus, the Republic of Uzbekistan through the Ministry of Finance of the Republic of Uzbekistan and the UFRD ultimately controls 100 per cent. of the voting shares and the charter capital of the Bank. In addition, the majority of the members of the Bank's Supervisory Council serve as directors or officers of governmental agencies that regulate the Bank's business. See "*Management*".

The Uzbekistan Government is therefore able to determine the outcome of all matters concerning the Bank. Accordingly, the Uzbekistan Government could cause the Bank to pursue transactions or to make large dividend payments or other distributions or payments to shareholders that are designed to implement the policy of the Uzbekistan Government rather than benefit the Bank or the Noteholders, even though such transactions may involve increased risk for the Bank and, consequently, for the Noteholders. Although the Bank retains autonomy to determine day-to-day commercial matters, its overall strategy and, therefore, indirectly the focus of its loan portfolio, is prescribed by the Uzbekistan Government. The interests of the Bank's shareholders and management may, in some circumstances, conflict with the interests of the Noteholders and any such conflict could have a material adverse effect on the Noteholders' investment in the Notes.

Historically, through its loan book, the Bank assisted the Uzbekistan Government in financing infrastructural and development projects for the Uzbekistan manufacturing, transport and communication sectors. The Bank continues to issue loans to state-owned companies operating in those sectors using funding provided by the Government in the form of loans or deposits from the state agencies. Such loans typically have low margins and interest rates below market rates, thus affecting the Bank's net profit. Since 2018, in line with the general reform of the banking sector in Uzbekistan and the Bank's strategy, the Uzbekistan Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as reducing the state support financing available to the Bank. See "*Business–Competitive Strengths–History of strong shareholder support*". Nevertheless, following the implementation of the Bank's transition strategy and decrease of the state financial support provided to the Bank, it still is directed by the state as its sole shareholder to invest in subsidiaries or to provide lending to companies and projects which are not commercially viable or at below market rates. In addition, in the past the Bank has been directed by the Government to purchase shares in, and participate in financial rehabilitation of, non-banking entities in Uzbekistan, which it is currently divesting of. However, no assurance can be given that any such divestment will be completed on the terms favourable to the Bank or at all or that the Bank will not be directed to participate in the financial rehabilitation of other businesses in the future. Therefore, the state might require the Bank to engage in business practices in a way not necessarily consistent with the best interests of the Noteholders and which may negatively affect the Bank's net interest income. See *"–Risks Related to the Group's Business and Industry–The implications of the COVID-19 pandemic could have a material adverse effect on the Group’s financial condition, results of operations and prospects as well as the value of the Notes*".

Risks Related to the Group's Legal, Regulatory, Compliance and Governance Framework

The Bank is subject to substantial regulation and oversight, and future changes in regulations or relevant policies are unpredictable

As a commercial bank and participant of the financial market of the Republic of Uzbekistan, the Bank is subject to significant regulation and supervision by the CBU, the finance market regulator. If regulations change or the Bank expands its businesses, the Bank may become subject to additional rules and regulations, which may affect its operations. In November 2019, the significant amendments to the law "*On banks and banking activity*" were introduced. This law introduced changes to, *inter alia*, licencing requirements for banks, reporting and transparency rules, etc. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Recent and Expected Banking Reforms*". Future changes in regulation on financial market participants, fiscal or other policies are unpredictable and there could be a delay between the announcement of a change and the publication of detailed rules relating to such change. There can be no assurance that: the current regulatory environment in which the Bank operates will not be materially tightened; new or additional requirements or mandatory ratios will not be introduced, including as a result of a change in government in Uzbekistan; or the Bank will be able to comply with any or all resulting regulations. If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to certain regulatory ratios

Similarly to other regulated financial institutions in Uzbekistan, the Bank is required to comply with certain capital adequacy and regulatory ratios based on Uzbekistan GAAP and set by the CBU. The current CBU capital regulation is based on a combination of Basel II and III guidelines, with material regulatory discretion exercised by the CBU reflecting the specifics of the local banking industry. The main mandatory capital ratios reportable by Uzbekistan's banks are the Total Capital Adequacy Ratio, Tier I Capital Adequacy Ratio and the Leverage Ratio. The Bank does not intend to report any capital adequacy ratios under Basel III standards and/or based on IFRS during the life of the Notes. Therefore, the Noteholders may face difficulties tracking the Bank's capital adequacy ratios. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Mandatory Ratios*" and "*Financial Review–Capital Management*".

As at 30 June 2020, the Bank was in compliance with all of the mandatory regulatory ratios set out by the CBU and calculated based on Uzbekistan GAAP: the Bank's Total Capital Adequacy Ratio amounted to 31 per cent., Tier I Capital Adequacy Ratio amounted to 24 per cent. and Leverage Ratio amounted to 14.0 per cent. However, should the Bank be in breach of any regulatory ratios, the Bank and its officers may be subject to significant fines and other sanctions applied by the CBU resulting in a material adverse effect on its reputation, business, financial condition, results of operations and prospects. Furthermore, should the CBU increase the minimum prescribed limits for mandatory capital ratios, the Bank may be required to adjust its business mix to conform to more strict capital and liquidity standards, which may limit the Bank's ability to exercise its strategy and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Furthermore, certain of the Bank's financing facilities contain covenants on maintenance of capital adequacy and certain other mandatory ratios above a prescribed minimum, which may exceed the regulatory set level. See "*–The Bank is required to comply with certain financial and other restrictive covenants*". Failure of the Bank to comply with the contractual ratio levels may lead to breach of covenants under financial facilities, which in turn may cause acceleration of the Bank's indebtedness and cross defaults, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is required to comply with certain financial and other restrictive covenants

The Bank is subject to certain financial and other restrictive covenants under the terms of its indebtedness that impose certain restrictions on the Bank. The Bank's ability to meet its financial covenants and tests under the terms of its indebtedness are, to an extent, affected by events beyond the Bank's control, such events may include, *inter alia*, macroeconomic and political shocks, sharp fluctuations in foreign currency exchange rates and commodity prices, etc. which may cause the Bank to be in breach of some of these covenants from time to time. The Group was in breach of the following financial covenants under its credit facility with Gazprombank JSC: (a) cash and cash equivalents to total assets ratio (as at 31 December 2019); and (b) liquid assets to total assets ratio (as at 31 December 2019 and 30 June 2020). In September 2020, these breaches were waived by Gazprombank JSC. See "*Financial Review–Financial Position–Total Liabilities*".

While the Bank endeavours to ensure compliance with all financial covenants applicable to it and the Bank is currently in compliance with the financial covenants in its loan agreements, the Bank's management cannot give any assurance that the Bank will be able to meet the tests imposed by the financial and other restrictive covenants under the terms of its indebtedness or that it will be able to obtain consents to amend or waivers in respect of such covenants in the future. A failure by the Bank to comply with the restrictions and covenants in its existing or future debt and other agreements, may result in a default under the terms of those agreements. In the event of a default under these agreements, the parties may terminate their commitments to further lend to the Bank or accelerate the loans and declare all amounts borrowed due and payable triggering events of default in other finance agreements. Such events may also trigger an event of default under the Notes. If any of these events occurs, the Bank cannot give any assurance that available assets would be sufficient to repay in full all of the Bank's affected indebtedness, or that the Bank would be able to secure alternative financing.

Even if the Bank could obtain alternative financing, the Bank's management cannot give any assurance that such financing would be on terms that are favourable or acceptable to the Bank.

The Bank's measures to prevent corruption, money laundering or terrorist financing may not be completely effective

The Bank considers itself in compliance with all applicable anti-corruption, anti-money laundering and anti-terrorist financing laws and regulations. The Bank has procedures and documents aimed at preventing corruption, money laundering and financing of terrorist activities, including a general anti-corruption, anti-money laundering policy and internal control procedures. The Bank has not been subject to any investigation with respect to its involvement in corruption, money laundering or terrorist financing. However, there can be no assurance that third parties will not attempt to use the Bank as a conduit for money laundering or terrorist financing without its knowledge, nor that the measures described above will be completely effective in pre-empting, identifying and/or terminating such activity. If the Bank fails to comply with anti-corruption, anti-money laundering or anti-terrorism financing laws or if it is otherwise associated with corruption, money laundering or terrorist financing, this could have a material adverse effect on its reputation, business, financial condition, results of operations and prospects.

Risks Related to Republic of Uzbekistan

The Bank may be adversely affected by changes in Uzbekistan's economic, political and other conditions

The Bank's operations are primarily located in, and the vast majority of its revenue is sourced from, Uzbekistan. The Bank's results of operations are, and are expected to continue to be, significantly affected by financial and economic developments in or affecting Uzbekistan and, in particular, by the level of economic activity in Uzbekistan. They can also be affected by political, social and legal developments in the country. Factors such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand for the Bank's products and services.

Global and regional economic conditions remain volatile, and there is significant economic uncertainty. Real GDP growth in Uzbekistan was 5.6 per cent. in 2019, 5.4 per cent. in 2018 and 4.5 per cent. in 2017, according to the State Committee of the Republic of Uzbekistan on Statistics. According to the IMF's World Economic Outlook Update published in June 2020, the near-term outlook for the Central Asia and Middle East has worsened, with GDP growth projected to fall to negative 4.7 per cent. in 2020, from 1.0 per cent. in 2019, as decline in economic activity is expected in most economies in the region, primarily due to a spillover effect from the global economic slowdown and the COVID-19 outbreak. The IMF projects a 3.3 per cent. GDP growth rate in Central Asia and Middle East economies in 2021. According to the IMF's World Economic Outlook published in April 2020, the IMF expects 1.8 per cent. and 7.0 per cent. real GDP growth in Uzbekistan in 2020 and 2021, respectively, supported by new investment opportunities and structural reforms directed to further diversify the economy, as well as by projected recovery from the COVID-19 outbreak. According to the Asian Development Outlook Update published in September 2020, the Asian Development Bank expects 0.5 per cent. and 6.5 per cent. GDP growth in Uzbekistan in 2020 and 2021, respectively.

Uzbekistan continues to face significant risks to its growth prospects, including risks associated with the exchange rate, financial stability, inflation and capital flight. Market turmoil and economic deterioration in Uzbekistan may cause consumer spending to decline and have a material adverse effect on the liquidity and financial condition of the Bank's customers in Uzbekistan. Despite a stable political environment in Uzbekistan during the current period of economic reforms, uncertain and volatile global and regional political conditions, such as the COVID-19 outbreak, and regional geopolitical developments, could also have substantial political and macroeconomic ramifications, which could, in turn, have a significant impact on the Uzbekistan's economy. If any of these risks materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Uzbekistan's banking sector remains vulnerable to external shocks

Uzbekistan's banking system's low exposure to global financial markets, limited financial liberalisation, a partly integrated economic structure into the world trading system and large financial subsidies for key sectors largely shielded the sector from the effects of the global financial crisis in 2008/2009. However, Uzbekistan's banking sector is still concentrated, underdeveloped and vulnerable to macroeconomic shocks, such as further devaluation of the soum.

As at 30 June 2020, the banking sector of the Republic of Uzbekistan consisted of 31 active banks, comprising five wholly state-owned banks, nine partly state-owned joint-stock commercial banks, seven banks with foreign capital and nine private banks. As at 1 July 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85.0 per cent. of all of the banking sector's total assets, 88.6 per cent. of the banking sector's total loans, 84.9 per cent. of the banking sector's liabilities and 71.8 per cent. of the banking sector's total deposits. In addition, a large share of the banking sector's loans is comprised of loans to state-owned companies guaranteed by the state, exposing the sector to high loan concentration and to single borrower risk. Deterioration of the creditworthiness of the largest borrowers which are also key enterprises in the economy may lead to systemic shocks for the economy as a whole and the banking sector in particular.

In addition, as at 1 August 2020, the NPL ratio of the banking sector in Uzbekistan (based on the CBU standards) amounted to 2.4 per cent. Based on a CBU initiative, going forward, banks will have to implement IFRS 9 standard models for valuation and measurement of their assets, which is likely to lead to an increase in NPL ratios and respective provisions in the banking sector. Furthermore, risk management in Uzbekistan's banking sector is at the development stage and has not yet reached international standards. Stress-testing and scoring systems, which have already been implemented based on IMF methodology, identified concentration as the main risk for state-owned banks. As at the date of this Prospectus, the maximum exposure to a single borrower or a group of related borrowers (except for interbank loans (deposits)) set by the CBU for the unsecured loan portfolio of commercial banks shall not exceed 5 per cent. of a bank's Tier 1 capital. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Mandatory Ratios*".

In 2017, following currency liberalisation, the banking sector also had a high level of loans denominated in U.S. dollars and other foreign currencies, giving rise to risks relating to currency fluctuations. The volume of loans denominated in foreign currencies increased from 68,838 billion soums in 2017 to 93,527 billion soums in 2018 as a result of the devaluation. According to the CBU, as at 1 August 2020, foreign currency denominated loans constituted approximately 49.7 per cent. of total loans in the sector and foreign currency denominated deposits amounted to approximately 42.9 per cent. of the total deposit portfolio of the banking sector. The majority of these foreign currency denominated loans were long-term loans granted by the UFRD to state-owned enterprises for imports of equipment and machinery.

Therefore, the Uzbek banking sector remains concentrated, vulnerable and susceptible to foreign currency fluctuations and there can be no assurance that future turmoil in the global banking sector and the wider economy will not have a negative effect on Uzbekistan's banking sector and on its participants. A failure or default of any financial institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could prevent the Bank from raising new or additional funds in the capital markets and could also significantly reduce depositors' confidence in the banking industry in general and in the Bank in particular. All of these events could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects and the trading price of the Notes.

Uzbekistan's economy and the banking market has been undergoing significant changes

Since early 2017, the Government has introduced a number of measures aimed at the liberalisation of Uzbekistan's economy and encouraging growth and foreign investment. These reforms include currency and trade liberalisation, reforms of the tax and state budget processes, the restructuring and privatisation of state-owned entities and the reform of the agriculture and financial sectors. To increase the efficiency of the banking sector, the Government is planning a number of further reforms, such as the privatisation of some state-owned banks, including through sales to foreign investors. However, there can be no assurance that such reforms will be successful or sufficient. Deficiencies in the Uzbekistan banking sector may result in the banking sector being more susceptible to future worldwide credit market downturns and economic slowdowns.

It is difficult to forecast how the changes in banking and financial market regulation will affect the Uzbekistan banking system, and no assurance can be given that the regulatory system will not change in such a way that will increase the Bank's expenses or impair the Bank's ability to provide a full range of banking services or to compete effectively, thus adversely affecting the Bank's credit ratings, business, financial condition, results of operations and prospects.

Uzbekistan's economy is under inflationary pressure

The economy of Uzbekistan is significantly affected by inflationary pressure. Uzbekistan's inflation was equal to 15.2 per cent. in 2019, 14.3 per cent. in 2018 and 14.4 per cent. in 2017. The CBU expects inflation and CPI to remain high in 2020 on the back of foreign currency liberalisation reforms implemented in the country in 2018 and the COVID-19 outbreak and global economic recession in 2020. Heavy and sustained inflation could lead to market instability, financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any of these events could lead to decreased demand for the Bank's products and services and have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Withholding Tax

Pursuant to the Tax Code of the Republic of Uzbekistan effective as at 1 January 2020, as amended ("**Tax Code**"), any amount of principal, interest or premium payable under international bonds (such as the Notes) by an Uzbek legal entity to non-resident or resident legal entities or individuals is not subject to any withholding tax in Uzbekistan.

If interest payments in respect of any Notes are subject to Uzbekistan withholding tax, the Bank shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such withholding been required as more fully described in Condition 9. The Tax Code does not permit contractual provisions imposing on residents of the Republic of Uzbekistan an obligation to bear expenses in relation to tax obligations of foreign natural persons who are non-resident of the Republic of Uzbekistan (the "**Non-Uzbek natural persons**"). Whilst tax gross-up provisions of Condition 9 are expressed to impose on the Bank an obligation to pay additional amounts rather than to bear expenses in relation to tax obligations of the Non-Uzbek natural persons, there is no assurance that an Uzbek court will agree with this interpretation and, therefore, there is a risk that such gross-up provisions may not be enforceable. So far as the Bank is aware, there has been no court case in the Republic of Uzbekistan in which tax gross-up or similar provisions were considered.

Enforcement of judgements or arbitral awards against the Bank can be difficult

The Bank has not submitted to the jurisdiction of any foreign courts in connection with the Notes. The Conditions provide that arbitration will be the exclusive remedy in relation to any dispute relating to the Notes. If a Noteholder is granted a monetary award in any arbitration proceedings in relation to the Notes, it may attempt to enforce that award or bring proceedings on the award as a debt owing to it in Uzbekistan and attempt to obtain a judgment thereon. In addition, Uzbekistan and the United Kingdom are parties to the New York Convention and, accordingly, an arbitral award should generally be recognised and enforceable in Uzbekistan provided the conditions to enforcement set out in the New York Convention are met and subject to compliance with Uzbek law. See "*Limitations on Enforcement of Arbitral Awards and Judgments*" for more information on enforcing an arbitral award in Uzbekistan.

Uzbekistan's courts may not enforce a judgment obtained in a court outside Uzbekistan (including the judgement on an arbitral award) unless there is a treaty in effect between the relevant country and Uzbekistan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Uzbekistan and the United Kingdom. Even if an applicable international treaty is in effect or a foreign judgment might otherwise be recognised and enforced on the basis of reciprocity, the recognition and enforcement of a foreign judgment will in all events be subject to exceptions and limitations provided for in Uzbek law.

For example, an Uzbekistan court may refuse to recognise or enforce a foreign arbitral award or a foreign judgement thereon if its recognition or enforcement would be contrary to Uzbekistan public policy. As a result, it may be difficult to obtain recognition or enforcement of a foreign arbitral award or a foreign judgement thereon in respect of the Notes.

It may also be difficult to enforce a foreign arbitral award or a foreign judgement thereon in Uzbekistan due to a number of factors, including the lack of experience of Uzbek courts in international commercial transactions and certain procedural irregularities, all of which could introduce delay and unpredictability into the process of enforcing any foreign arbitral award or a foreign judgement thereon in Uzbekistan. In addition, the judicial system and judicial officials in the Republic of Uzbekistan may not be fully independent of external social, economic and political forces. Therefore, judicial decisions could be unduly influenced.

Corporate governance standards in Uzbekistan differ from those in Western jurisdictions

The Bank is subject to the general corporate governance and disclosure obligations applicable to the joint-stock companies under Uzbek law, including those in the capital markets area. Corporate governance, disclosure and transparency standards applicable to Uzbekistan companies are not of the same standard as those in the United Kingdom. Accordingly, there are fewer protections for investors than would otherwise be the case if the Bank was required to comply with corporate governance principles or standards applicable to companies in the United Kingdom. Furthermore, should the Bank fail to comply with existing corporate governance standards applicable under Uzbek law it could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Risks Related to the Notes

Insolvency and administrative laws in the Republic of Uzbekistan could negatively affect the ability of Noteholders to enforce their rights

Uzbekistan bankruptcy law provides that transactions or payments entered into or made within specified time periods before a bankruptcy petition is filed or at or after the time when a bankruptcy petition is filed may be declared void by an Uzbek court. After a bankruptcy petition is filed, the subject company is prohibited from paying any debt outstanding prior to the bankruptcy proceedings, subject to specified exceptions. After the subject company becomes insolvent, creditors of that company may not effectively pursue any legal action to obtain an order for payment of indebtedness, to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor outside the framework of the bankruptcy proceedings. Contractual provisions, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Uzbekistan law. In addition, an administrator may renounce or set aside executory contracts.

Additionally, if a court orders bankruptcy proceeding, it can prohibit the sale of an asset that it deems to be essential to the continued business of the debtor, and it can postpone the payment of debts owed by the debtor. Uzbekistan bankruptcy law assigns priority to the payment of certain creditors, including creditors on personal injury obligations, employees, secured creditors, the government, tort plaintiffs and certain post-petition creditors.

The Notes are pari passu securities

Subject to the restrictions on levels of indebtedness in other agreements and under prudential norms, there is no restriction on the amount of securities the Issuer may issue and which may rank equally in right of payment with the Notes. The issue of any such securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect the Issuer's ability to repay principal of, and make payments of interest on, the Notes. This could have a material adverse effect on the trading price of the Notes.

The Notes constitute unsecured obligations of the Issuer

The Issuer's obligations under the Notes will constitute unsecured obligations of the Issuer. Accordingly, any claims against the Issuer under the Notes would be unsecured claims, which would be satisfied only after any secured creditors, if at all. The ability of the Issuer to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

There is no public market for the Notes

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made for admission to trading of the Notes on the Official List. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Bank's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions in the global capital markets may lead to reduced liquidity, increased credit risk premiums and a reduction in investment in securities. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The trading price of the Notes may be volatile

The trading price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's operating results and those of the Bank's competitors, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating of the Bank. Historically, the market for non-investment grade debt, such as the Notes, has been subject to disruptions that cause substantial volatility in the prices of such securities. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the trading price of the Notes without regard to the Bank's operating results, financial conditions or prospects or credit rating.

The Notes may or must be redeemed prior to maturity for certain reasons

On the occurrence of one of the early redemption events described in Condition 7, the Issuer may, or in some cases must, redeem the Notes in whole or in part together with accrued and unpaid interest at any time, and the Issuer shall redeem all outstanding Notes in accordance with the Conditions. On such redemption, or at maturity, the Issuer may not have the funds to fulfil its obligations under the Notes and it may not be able to arrange for additional financing. Further, if the Issuer is able or perceived to be able to redeem the Notes prior to their maturity then this may adversely affect the market price of the Notes from time to time.

Modification and waivers

The Conditions contain provisions for calling meetings of the Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities (namely, holders of Notes comprising a clear majority of votes cast, subject to the applicable quorum (in the context of an extraordinary resolution other than a written resolution or electronic consent) or holders of not less than two-thirds of the aggregate principal amount of Notes outstanding (in the context of a written resolution or electronic consent)) to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of certain provisions of the Notes or the Trust Deed which in the opinion of the Trustee is of a formal, minor or technical nature and is made to correct a manifest error, (ii) any other modification thereof (subject as provided in the Trust Deed) or any waiver or authorisation of any breach or proposed breach thereof which in the opinion of the Trustee is not materially prejudicial to the interests of the Noteholders.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited

Except in limited circumstances, the Notes will be issued only in global form, with interests therein held through the facilities of Euroclear and/or Clearstream, Luxembourg. Ownership of beneficial interests in the Notes is shown on, and the transfer of that ownership is effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg, or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear and/or Clearstream, Luxembourg, can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear and/or Clearstream, Luxembourg systems may be impaired.

USE OF PROCEEDS

The net proceeds from this Offering, after payment of commissions related to the Offering, will be approximately U.S.$297,500,000. This figure does not include expenses related to the Offering and admission to trading, estimated to be approximately U.S.$2,500,000.

The Issuer will use the net proceeds from the issuance of the Notes for general banking business.

CAPITALISATION

The following table sets forth the Group's capitalisation as at 30 June 2020 and has been extracted or derived from the Interim Financial Statements. For further information regarding the Group's financial position, see "*Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

	As at 30 June 2020
	millions soums
Liabilities	(unaudited)
Amounts due to the CBU and the Government	1,475,231
Amounts due to credit institutions	2,159,280
Amounts due to customers	16,286,561
Debt securities issued	922,498
Other borrowed funds	37,532,082
Subordinated loans	1,532,805
Other liabilities	292,129
Total liabilities	**60,200,586**
Equity	
Share capital	11,582,700
Contribution from shareholders	126,096
Retained earnings	314,569
Other reserves	123,008
Non-controlling interests	79,014
Total equity	**12,225,387**
Total liabilities and equity	**72,425,973**

On 21 July 2020, 11 August 2020 and 11 September 2020, the Group incurred U.S.$11,057,625, U.S.$7,338,583.87 and U.S.$21,539,542.08, respectively, under the existing facility agreement with China Development Bank, which comprised, based on the exchange rate as at the dates of withdrawals, in total 409,290 million soums.

On 30 July 2020, the Group incurred U.S.$650,000 under the existing facility agreement with European Bank for Reconstruction and Development ("**EBRD**").

On 18 August 2020, the Group incurred 181,997 million soums under the existing facility agreement with VTB Bank Europe.

In August 2020, the Group signed the long-term facility agreement with the Silk Road Fund for the aggregate amount of 1,400,00,000 renminbi and with the JICA Japan for the aggregate amount of U.S.$20,000,000. The amount drawn by the Group is 14,839 million soums.

On 15 September 2020, the Group incurred 128,417 million soums under the existing facility agreement with LANDESBANK (LBBW).

On 22 September 2020, the Group incurred EUR 2,378,300 under the existing facility agreement with Raiffeisen Bank International AG.

On 22 September 2020, the Group incurred two tranches of U.S.$1,000,000 each under the existing facility agreement with EBRD.

In September 2020, the share capital of the Bank was increased by 395,374 million soums to 11,978,074 million soums by way of capitalisation of retained earnings. The increase was made pro rata to the UFRD and the Ministry of Finance of the Republic of Uzbekistan shareholdings.

Except as set forth above, there have been no material changes in the capitalisation of the Group since 30 June 2020.

SELECTED FINANCIAL INFORMATION

The financial information set forth below as at and for the six-month periods ended 30 June 2020 and 30 June 2019 and the years ended 31 December 2019, 2018 and 2017 has been extracted without material adjustment from the Financial Statements. The financial data set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "Financial Review".

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Six months ended		Year ended 31 December		
	2020	2019	2019	2018	2017
	million soums				
	(unaudited)		(audited)		
Continuing operations:					
Interest income	2,631,991	1,751,800	3,971,082	2,620,568	1,389,969
Interest expense	(1,012,443)	(889,760)	(2,138,230)	(1,358,970)	(712,702)
Net interest income	**1,619,548**	**862,040**	**1,832,852**	**1,261,598**	**677,267**
Credit loss (expense) / reversal	(705,439)	(463,198)	(271,645)	556,674	(1,219,770)
Initial recognition adjustment on interest bearing assets	(37,098)	(28,316)	(188,565)	(129,677)	(121,579)
Net interest income after credit loss expense and initial recognition of adjustment	**877,011**	**370,526**	**1,372,642**	**1,688,595**	**(664,082)**
Fee and commission income	175,542	200,278	446,791	391,131	338,299
Fee and commission expense	(35,387)	(37,179)	(83,073)	(74,928)	(59,062)
Net gain from financial instruments at fair value through	4,145	28,263	28,263	-	-
Net gains/(losses) from foreign currencies:					
- dealing	27,382	11,476	44,598	69,664	441,226
- translation differences	(19,795)	29,291	(52,495)	(491,024)	2,494,017
Share of profit of associates	5,011	5,437	9,911	8,323	8,540
Dividend income	-	4,803	14,402	12,821	4,638
Other income	26,462	14,475	35,992	43,791	102,922
Other impairment and provisions	(77,121)	(10,059)	(21,727)	(45,761)	(27,832)
Personnel and operating expenses	(369,465)	(366,013)	(870,897)	(723,773)	(562,697)
Revenues of subsidiaries	204,626	134,735	365,723	76,086	38,063
Costs of subsidiaries	(163,657)	(107,256)	(292,496)	(106,503)	(25,301)
Net non-interest (expense) / income	**(222,257)**	**(91,749)**	**(375,008)**	**(840,173)**	**3,315,510**
Profit before income tax expense	654,754	278,777	**997,634**	**848,422**	**2,088,731**
Income tax (expense) / benefit	(158,971)	(38,224)	(207,545)	(59,473)	61,876
Profit for the period from continuing operations	**495,783**	**240,553**	**790,089**	**788,949**	**2,150,607**
Discontinued operations:					
Loss for the year from discontinued operations	-	-	-	-	(14,783)
Net profit for the period	**495,783**	**240,553**	**790,089**	**788,949**	**2,135,824**
Attributable to:					
- shareholders of the Group	505,861	243,251	815,070	802,947	2,160,957
- non-controlling interests	(10,078)	(2,698)	(24,981)	(13,998)	4,867
Profit for the period	**495,783**	**240,553**	**790,089**	**788,949**	**2,135,824**
Other comprehensive income					
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	9,812	15,613	42,318	(20,532)	88,542
Total other comprehensive income that may be reclassified to profit or loss in subsequent periods	**9,812**	**15,613**	**42,318**	**(20,532)**	**88,542**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:					
Gains on equity instruments at fair value through other comprehensive income	985	-	-	-	-
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**985**	**-**	**-**	**-**	**-**
Other comprehensive income, net of tax	**10,797**	**15,613**	**42,318**	**(20,532)**	**88,542**
Total comprehensive income for the period	**506,580**	**256,166**	**832,407**	**768,417**	**2,224,366**
Attributable to:					
shareholders of the Bank	516,256	256,522	851,040	785,495	2,206,501

non-controlling interests	(9,676)	(356)	(18,633)	(17,078)	17,865
Total comprehensive income for the period	**506,580**	**256,166**	**832,407**	**768,417**	**2,224,366**

Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
		million soums		
	(unaudited)		(audited)	
Assets				
Cash and cash equivalents	7,777,491	7,001,599	6,614,154	11,080,508
Amounts due from credit institutions	874,798	1,777,507	1,892,000	2,006,794
Derivative financial assets	106,655	102,510	-	-
Loans to customers	59,889,588	54,174,008	46,025,482	34,521,563
Assets held for sale	9,780	10,262	20,755	195,858
Investment securities	1,210,026	218,342	47,762	60,437
Current income tax assets	12,411	23,590	10,993	8,616
Investments in associates	453,614	239,535	189,853	55,936
Property and equipment	1,395,053	1,383,471	912,565	233,913
Deferred income tax assets	350,159	244,136	244,351	198,715
Other assets	346,398	314,381	241,584	148,032
Total assets	**72,425,973**	**65,489,341**	**56,199,499**	**48,510,372**
Liabilities				
Amounts due to the CBU and the Government	1,475,231	1,695,207	497,688	571,014
Amounts due to credit institutions	2,159,280	1,139,442	950,879	1,909,557
Amounts due to customers	16,286,561	15,507,241	11,871,894	12,110,126
Debt securities issued	922,498	131,641	145,915	176,506
Other borrowed funds	37,532,082	33,115,228	37,439,050	29,382,360
Subordinated loans	1,532,805	1,459,376	-	-
Liabilities directly associated with assets held for sale	-	-	-	18,024
Other liabilities	292,129	293,979	377,818	71,022
Total liabilities	**60,200,586**	**53,342,114**	**51,283,244**	**44,238,609**
Equity				
Share capital	11,582,700	11,582,700	4,320,970	1,267,530
Contribution from shareholders	126,096	126,096	126,096	-
Retained earnings	314,569	233,099	335,635	2,970,056
Other reserves	123,008	101,232	43,296	60,748
Total equity attributable to shareholders of the Group	**12,146,373**	**12,043,127**	**4,825,997**	**4,246,501**
Non-controlling interests	79,014	104,100	90,258	25,261
Total equity	**12,225,387**	**12,147,227**	**4,916,255**	**4,271,763**
Total equity and liabilities	**72,425,973**	**65,489,341**	**56,199,499**	**48,510,372**

Selected Key Performance Indicators and Alternative Performance Measures

	As at or for the six months ended 30 June	As at or for the year ended 31 December		
	2020[12]	2019	2018	2017
		%		
Financial Performance				
Return on average assets[1]	0.7	1.3	1.5	6.2
Return on average equity[2]	4.1	9.3	17.2	74.3
Cost-to-income ratio[3]	20.2	35.8	45.5	53.0
Net Interest Margin[4]	2.4	6.2	4.9	4.0
Allowance for impairment / Gross loans[5]........	4.1	3.4	3.3	5.3
Liquidity				
Total liquid assets[6] / total assets	10.7	10.7	11.8	22.8
Capital Adequacy				
Total Capital Adequacy Ratio[7]	31	25	18	22
Tier I Capital Adequacy Ratio[7]	24	20	15	16
Credit Quality				
Non-Performing Loans as a proportion of the gross loans to customers (NPL ratio) [8]............	1.7	3.2	1.6	2.2
Non-Performing Loans Coverage[9]	241.7	105.1	201.7	244.0
Problem Loans / Gross loans [10]	5.3	4.5	3.1	3.9
Leverage ratio[11]..	14.0	15.5	7.0	7.4

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For more details, see "*Presentation of Financial Information*".

Notes:

(1) Return on average assets is calculated as profit for the period divided by the average balance of total assets. The average balance of total assets is calculated as simple average of total assets as at the beginning and ending of the period.

(2) Return on average equity is calculated as profit for the period divided by the average of total equity. The average equity is calculated as simple average of total equity as at the beginning and the ending of the period.

(3) Cost-to-income ratio is calculated as operating expenses divided by operating income. Operating expenses comprises personnel expenses and other operating expenses. Operating income comprises net interest income, net fee and commission income, net revenues (costs) of subsidiaries and other income.

(4) Net interest margin is calculated as net interest income divided by average interest-earning assets. The average interest-earning assets is calculated as simple average of interest-earning assets at the beginning and the ending of the period. Interest-earning assets include cash and cash equivalents, amounts due from credit institutions, investment securities and loans to customers.

(5) Allowance for impairment / Gross loans is calculated as allowance for impairment as at the period end divided by gross loans to customers as at the period end.

(6) Total liquid assets represent cash and cash equivalents.

(7) Total Capital Adequacy Ratio and Tier I Capital Adequacy Ratio are calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks.

(8) Non-Performing Loans are defined as gross loans to customers with overdue payments of principal loan amount and/or interest by 90 days (Stage 3 loans, i.e. loans considered credit-impaired).

(9) Non-Performing Loans Coverage is calculated as the amount of Total allowance for impairment for the whole portfolio as at period end divided by the gross carrying value of the Non-Performing Loans as at the period end.

(10) Problem Loans (sum of Doubtful Loans and Non-Performing Loans) calculated as a percentage of gross loans to customers. Doubtful Loans are defined as loans that has shown a significant increase in credit risk since origination (stage 2 loans).

(11) Leverage ratio is calculated as Tier I Capital divided by sum of total assets and off-balance sheet assets (obligations to issue loans, letters of credit and guarantees).

(12) Return on average assets, Return on average equity and Net Interest Margin for the six months ended 30 June 2020 presented in the table above have not been annualised. Accordingly, Return on average assets, Return on average equity and Net Interest Margin for the six months ended 30 June 2020 are not directly comparable to Return on average assets, Return on average equity and Net Interest Margin for the years ended 31 December 2019, 2018 and 2017.

FINANCIAL REVIEW

The following discussion and analysis of the Bank's financial condition and results of operations covers the years ended 31 December 2019, 2018 and 2017 and the six months ended 30 June 2020 and 2019. The financial information presented in this discussion has been extracted or derived from the Financial Statements. This section should be read together with the Financial Statements and the notes thereto, as well as the other financial information included elsewhere in this Prospectus.

The following discussion contains forward-looking statements. The Bank has based these forward-looking statements on its current projections and expectations about future events. The actual results of the Bank may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set for the under "Risk Factors" and elsewhere in this Prospectus.

The Interim Financial Statements for the periods indicated below include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim period. The interim results are not necessarily indicative of the results that may be expected for a full year.

Overview

Established in 1991, the Bank is a domestic systemically important bank and one of the leading universal banks in the Republic of Uzbekistan offering a full spectrum of banking products, services and solutions. According to the CBU, as at 1 June 2020, the Bank was ranked as the largest commercial bank in Uzbekistan by total assets (24 per cent. market share), by capital (25 per cent. market share), by deposits (17 per cent. market share), by loan portfolio (25 per cent. market share) and by net profit (19 per cent. market share). The Bank benefits from a strong shareholder base and a commercially-oriented business model and provides a comprehensive range of banking services, including state, corporate and retail lending, deposit-taking, customer accounts, international money transfers, letters of credit, guarantees, foreign exchange operations and other products. The Bank conducts its banking operations through its head office in Tashkent, a diversified distribution network which, as at 30 June 2020, included 73 branches, 30 mini-banks, 35 centres for banking services, 105 exchange desks, 38,999 banking terminals, 18 self-service points, 301 ATMs and 332 infodesks and an integrated online banking platform and mobile application.

The Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance of the Republic of Uzbekistan, for subsidised financing of investment projects in a number of strategic industries, being mainly manufacturing and transport and communication, and has otherwise in its day-to-day operations relied on funding provided by the Uzbekistan Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from the IFIs. The Bank has also historically participated in the financial rehabilitation of insolvent companies in Uzbekistan pursuant to the directions issued by the Government. See "*Business–History*".

Since 2019, as part of the on-going economic reforms in Uzbekistan, the Bank is undergoing a transitional reform of its banking organisation from being dependent on state control, support and funding towards a more market-orientated business model. Under this transition strategy, the Uzbekistan Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as reducing the state support financing available to the Bank as well as the state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See "*Business–Competitive Strengths–History of strong shareholder support*".

Following such strategic transition, the Bank intends to rely less on state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as syndicated loans from foreign financial institutions and international capital markets, including eurobonds and credit linked notes issuances, as well as increase the share of deposits from private companies and retail deposits in its funding base. Furthermore, the Bank is taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of the Uzbekistan's economy, such as agriculture, retail, foreign trade, construction, extraction and processing of fuel and energy resources, as well as to further develop its long-standing relationships with large corporate clients in manufacturing and transport and communication sectors on more commercial and market orientated terms. In addition, in order to remain competitive and maintain its leading position in the Uzbekistan banking sector while ensuring greater customer satisfaction, the Bank is also planning to implement a number of innovative products and services and digital-based solutions. See "*Business–Strategy–Expansion of product range and shift towards a client-centric model*" and *"Business–Strategy–Transformation into a digital bank*".

As at 30 June 2020, the Group's total assets comprised 72,425,973 million soums. Total gross loans to customers amounted to 62,477,871 million soums, with gross loans to corporate clients and gross loans to individuals accounting for 92.0 per cent. and 8.0 per cent. of total gross loans, respectively. As at 30 June 2020, the Group's total equity constituted 12,225,387 million soums. For the year ended 31 December 2019 and six months ended 30 June 2020, the Group generated profit of 790,089 million soums and 495,783 million soums, respectively.

The Bank was incorporated as a government specialised bank in 1991 and was converted into a joint-stock company in 2019. The Bank operates under banking licence No. 22 issued by the CBU on 15 February 2020. The Bank is domiciled in the Republic of Uzbekistan with its registered and head office being located at 101, Amir Temur street, Yunusabad district, Tashkent city, 100084, Republic of Uzbekistan. The telephone numbers of the registered office and the head office of the Bank are +998 78 148-00-10 and +99871 234-23-95. As at the date of this Prospectus, the Bank has the following long-term ratings: BB- from Fitch, B1 from Moody's and BB- from S&P.

Factors Affecting the Financial Statements

Key factors affecting the Group's financial results during the period under review and expected to continue to affect the Group's financial results in the future are discussed below.

COVID-19 Outbreak

As noted in "*Risk Factors–Risks Related to the Group's Business and Industry–The implications of the COVID-19 pandemic could have a material adverse effect on the Group’s financial condition, results of operations and prospects as well as the value of the Notes*", the outbreak of COVID-19 pandemic has negatively affected the global economic and business activity worldwide.

Against the backdrop of the COVID-19 outbreak, the gross carrying value of the Group's loans classified as Stage 2 loans increased by 207.8 per cent. from 729,994 million soums as at 31 December 2019 to 2,246,793 million soums as at 30 June 2020 whereas the gross carrying value of the Group's loans classified as Stage 3 loans (i.e. loans considered credit-impaired) decreased by 40.9 per cent. from 1,811,692 million soums as at 31 December 2019 to 1,070,704 million soums as at 30 June 2020 due to repayment of such loans. As a result, the ratio of Problem Loans to Gross loans increased to 5.3 per cent. as at 30 June 2020 from 4.5 per cent. as at 31 December 2019. See "*Selected Financial Information– Selected Key Performance Indicators and Alternative Performance Measures*".

In addition, the Group’s allowance for impairment of loans to customers increased by 36.0 per cent. as at 30 June 2020 as compared to 31 December 2019 from 1,903,350 million soums to 2,588,283 million soums primarily due to the Group taking a more conservative approach to risk weighting and ECLs assessment in light of the changing macroeconomic environment amid COVID-19 concerns. This resulted in the increase of the Allowance for impairment to Gross loans ratio to 4.1 per cent. as at 30 June 2020 from 3.4 per cent. as at 31 December 2019. See "*Selected Financial Information– Selected Key Performance Indicators and Alternative Performance Measures*".

In response to the outbreak of COVID-19, a number of relief measures have been introduced in Uzbekistan, including additional liquidity injections by the CBU to support the banking system and the issue by the CBU of recommendations to Uzbek banks to grant payment holidays and introduce interest rate caps for certain loans and deposits. Accordingly, in the six months period ended 30 June 2020, the Group has modified the terms and conditions of certain mortgage and consumer loans, which included the granting of payment holidays which resulted in the deferral of payments of principal and accrued interest, as part of the measures promulgated by the Uzbek Government. The Group considered these modifications to be non-substantial. According to the Bank's management estimates, as at 30 June 2020, the aggregate amount of loans in the Group’s loan portfolio which were subject to payment holidays was approximately 5 per cent. of the Group's gross loans to customers.

As at 30 June 2020, the Group introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, the Group has revised indicators of significant increase in credit risk to reflect that the credit risk should not automatically be considered as having significantly increased where the modifications to the terms of the loan are made pursuant to support measures introduced by the Uzbek Government.

The Group also updated forward looking information, including the forecasts of macroeconomic indicators and risk weighting models. As a result of these changes, the credit loss expense increased by 190,396 million soums for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 which accounted for 78.6 per cent. of the overall increase in the Group’s credit loss expense for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019.

Macroeconomic Conditions

The Group's results of operations and financial condition are substantially affected by the overall macroeconomic conditions globally and in Uzbekistan. Changes in both the global and domestic environment have in the past resulted in lower liquidity levels across the banking sector, tighter credit conditions for Uzbekistan companies and pressure on the soum and may continue to affect the Group and Uzbekistan's banking sector generally in the future. In addition, Uzbekistan economy is, to a significant degree, dependent on exports of key commodities, such as gold, natural gas and cotton. Dramatic decreases in the prices of these commodities in the world market may lead to sharp decreases in revenues of the Government and revenues of companies operating in these sectors, which, in turn, negatively impact the overall Uzbekistan economy. Accordingly, the Group's results of operations and financial condition are, and will continue to be in the future, significantly affected by Uzbekistan's economic factors, including those in the below table.

	Six months ended	**Year ended 31 December**		
	30 June 2020	**2019**	**2018**	**2017**
Nominal GDP at current prices, *soums billion* ...	255,252.6	511,838.1	406,648.5	302,536.8
Real GDP growth yoy, total *(%)*	0.2	5.6	5.4	4.5
GDP per capita at current prices, *soums thousand*..	7,497	15,242.0	12,339.1	9,340.8
Inflation *(%)*	4.6	15.2	14.3	14.4
External debt as a % of GDP[(1)]	48.1	42.1	34.3	26.7

[(1)] External debt as a % of GDP as at 30 June 2020 calculated on the basis of GDP for the twelve months ended 30 June 2020.

Source: The State Committee of the Republic of Uzbekistan on Statistics and the CBU. Actual numbers measured on a yearly basis.

Between 2017 and 2019, the average annual increase of Uzbekistan's real GDP was approximately 5.2 per cent. In 2019, the GDP of the Republic of Uzbekistan in current prices amounted to 511,838.1 billion soums, a growth in real terms of 5.6 per cent. compared with 2018. In 2018, the GDP of the Republic of Uzbekistan in current prices amounted to 406,648.5 billion soums, a growth in real terms of 5.4 per cent. compared with 2017. However, there was a sharp decline in nominal GDP in U.S. dollar terms in 2017 and 2018, mainly due to the managed devaluation of the official exchange rate of the soum to the then prevailing market levels in September 2017, which occurred as a result of currency liberalisation reforms. In 2016, the average annual exchange rate was 2,968.9 soums per U.S. dollar, before rising sharply to an annual average rate of 5,140.30 soums per U.S. dollar in 2017 and an average rate of 8,069.05 soums in 2018. As a result, nominal GDP in U.S. dollar terms declined from U.S.$81.8 billion in 2016 to U.S.$59.1 billion in 2017 and further to U.S.$50.4 billion in 2018, recovering to U.S.$57.9 billion in 2019. As at 30 June 2020, nominal GDP in U.S. dollar terms amounted to U.S.$26.1 billion.

The economy of Uzbekistan is also significantly affected by inflationary pressure. Uzbekistan's inflation was equal to 15.2 per cent. in 2019, 14.3 per cent. in 2018 and 14.4 per cent. in 2017. The expenses of the Group are mostly denominated in soums and, accordingly, are potentially affected by inflation. For example, employee wages have been, and are likely to continue to be, particularly sensitive to monetary inflation in Uzbekistan.

Stronger economic conditions tend to result in increased demand for the Group's banking products and services, including loans, deposits and other products. On the other hand, any deterioration of the economy affects the Uzbekistan banking sector by the reduction of profits, accumulation of losses and growth in the percentage of non-performing loans on the balance sheets of banks. Customers' and investors' lack of confidence in the banking industry may cause volatility in the funding markets, leading to higher borrowing costs and restricting access to liquidity for banks.

Currency Fluctuations

The functional currency of the Group, which is the currency of the primary economic environment in which the Group operates, and the Group's presentation currency, is the soum. Monetary assets and liabilities are translated into the Group's functional currency as the official exchange rate of the CBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Group's functional currency at the period-end official exchange rates of the CBU are recognised in profit or loss.

In September 2017, in accordance with the Presidential Decree No. UP-5177 "On priority measures for liberalisation of monetary policy" dated 2 September 2017, the official rate of soum was devaluated from 4,210.35 soums per U.S.$1 to 8,100.0 soums per U.S.$1, representing a 92 per cent. decrease. The devaluation allowed market mechanisms to determine the exchange rate rather than being administratively set. As a result, the Group recorded net gain from foreign currencies of 2,935,243 million soums for the year ended 31 December 2017. The foreign exchange gain in the year ended 31 December 2017 was the most significant item that positively impacted the Group's non-interest income in the periods under review. This was a one-off event that may not reoccur in the future.

In addition, the Group is exposed to volatility in foreign currency rates. Assets and liabilities of the Group are denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. The Group plans to access the international capital markets, which subjects it to risks inherent in currency fluctuations and the uncertainty of these markets as a reliable funding source. Despite the Group's strategy to balance its foreign currency position, any depreciation of the Uzbek soum against the U.S. dollar could negatively affect the Group in a number of ways, including, among other things, by increasing the actual cost to the Group of financing its U.S. dollar based liabilities and by making it more difficult for Uzbekistan borrowers to service their U.S. dollar loans. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's loan portfolio is heavily U.S. dollar denominated, and the quality of the Bank's loan portfolio may deteriorate as a result of slower economic growth and depreciations and devaluations of the soum against the U.S. dollar or other foreign currencies*" and "*–The Bank's operations are subject to various market risks*". As at 31 December 2019, 34.8 per cent. of the Group's gross loans to customers were denominated in soums, 51.5 per cent. in U.S. dollars and the remaining 13.7 per cent. in other currencies.

Changes in the Size and Composition of the Loan Portfolio

Increases or decreases in the overall size of the Group's loan portfolio and in the mix of its portfolio significantly impact the Group's total interest income and net interest margin. As at 30 June 2020, the Group's gross loans to customers amounted to 62,477,871 million soums, representing a 11.4 per cent. increase as compared to loans to customers as at 31 December 2019. In 2019, gross loans to customers increased by 8,483,680 million soums, or 17.8 per cent., as compared to 31 December 2018. The size of the Group's loan portfolio in soums has continued to increase as a result of growth in lending activity, in particular in manufacturing and transport and communication sectors, depreciation of Uzbek soum against the U.S. dollar, the higher proportion of the Group's loan portfolio denominated in U.S. dollars as compared to soums, general development of the banking sector in Uzbekistan and the expansion of the Group’s business in line with its 2023 Strategy.

In addition, the focus of the composition of the Group's loan portfolio has shifted to higher-margin products in line with the Group's strategy. Historically, the Group's loan book and lending strategy was predominantly focused on low risk loans to state and municipal organisations and state-owned companies, which were funded through deposits and loans from the UFRD, the Ministry of Finance of the Republic of Uzbekistan and other state agencies. However, as such loans were typically provided on subsidised low margin terms, the profitability of these loans to the Group is significantly lower as compared to loans to customers issued at commercial interest rates, which are based on market conditions. As part of the Group's strategy to gradually decrease the subsidised loans in its portfolio and increase profitability and the share of higher-margin products, the Group has increased the share of loans issued to private corporate clients and retail customers from 25.3 per cent., 34.4 per cent. and 42.6 per cent. as at 31 December 2017, 2018 and 2019, respectively, to 42.7 per cent. as at 30 June 2020.

Changes in Funding Base

The Group has historically operated on the basis of subsidised funding provided by the state agencies, such as the UFRD and the Ministry of Finance of the Republic of Uzbekistan, for financing of investment projects in strategic areas, and has otherwise relied on funding provided by the Government in the form of subsidised loans, deposits, capital injections and state guarantees, as well as borrowings from the IFIs. In line with its 2023 Strategy, the Group intends to gradually decrease the share of state funding in its funding base and instead to rely to a larger extent on funding from other sources, such as customer accounts, syndicated loans from foreign financial institutions, interbank lending market and international capital markets.

The share of customer accounts in the Group's total liabilities amounted to 27.1 per cent. as at 30 June 2020, as compared to 29.1 per cent. as at 31 December 2019. As at 30 June 2020, the Group's customer accounts amounted to 16,286,561 million soums, representing a 5.0 per cent. increase as compared to 31 December 2019. Customer accounts increased by 3,634,346 million soums, or 30.6 per cent., as at 31 December 2019 as compared to 31 December 2018. As at 30 June 2020, funding from international financial organisations, development banks and export-import banks comprised 22,448,743 million soums and 37.3 per cent. of the Group's total liabilities compared to 18,570,792 million soums and 34.8 per cent. as at 31 December 2019. In addition, as at 30 June 2020, the share of amounts due to credit institutions in total liabilities of the Group amounted to 3.6 per cent. compared to 2.1 per cent. and 1.9 per cent. as at 31 December 2019 and 2018. Furthermore, the Group has other sources of available funding, including under existing agreements with international financial organisations, see "– *Funding*".

Negative Liquidity Gap

The Group had a negative short-term liquidity gap within one year (which is defined as the net amount of the Group’s assets and liabilities contractually bound to be recovered or settled within one year) in the amount of 3,315,966 million soums as at 31 December 2018 and a negative short-term liquidity gap within one year in amount of 1,327,487 million soums as at 31 December 2017. These liquidity shortfalls were attributable to active project finance lending under state development programmes. As at 31 December 2019, the Group had a positive liquidity gap of 5,217,710 million soums primarily due to the increase in short-term lending.

Changes in Accounting Standards

Since 1 January 2018, the Group has replaced the incurred loss model that was used under IAS 39 with a forward-looking expected credit loss (ECL) model as a result of the IFRS 9 implementation. The ECL model applies a three-stage approach which is based on changes in credit quality of financial assets since the initial recognition. Accordingly, since 1 January 2018, the Group has recorded the allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. The quantitative impact of applying IFRS 9 as at 1 January 2018 is set out in the below table which reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

	Loan loss allowance / provision under IAS 39 / IAS 37 at 31 December 2017	**Re-measurement**	**ECL under IFRS 9 at 1 January 2018**
		million soums	
Impairment allowance for			
Loans and receivables at amortised cost	1,940,684	230,469	2,171,153
Cash and cash equivalents	-	4,400	4,400
Amounts due from credit institutions	-	938	938
	1,940,684	**235,807**	**2,176,491**
Financial guarantees	-	77,812	77,812
Letters of credit	-	18,445	18,445
Other commitments	-	32	32
	-	96,289	96,289
	1,940,684	**332,096**	**2,272,780**

See "*–Significant Accounting Policies and New Accounting Standards–IFRS 9 Financial Instruments*".

Results of Operations for the Six Months Ended 30 June 2020 and 2019

For the six months ended 30 June 2020 and 2019, the Group's net profit for the period amounted to 495,783 million soums and 240,553 million soums, respectively.

The following table sets forth the components of the Group's profit for the periods indicated.

	Six Months Ended 30 June	
	2020	**2019**
	million soums (unaudited)	
Continuing operations:		
Interest income	2,631,991	1,751,800
Interest expense	(1,012,443)	(889,760)
Net interest income	**1,619,548**	**862,040**

Credit loss reversal / (expense)	(705,439)	(463,198)
Initial recognition adjustment on interest bearing assets	(37,098)	(28,316)
Net interest income after allowance for loan impairment and initial recognition of adjustment	**877,011**	**370,526**
Fee and commission income	175,542	200,278
Fee and commission expense	(35,387)	(37,179)
Net gain from financial instruments at fair value through profit or loss	4,145	28,263
Net gains/(losses) from foreign currencies:		
- dealing	27,382	11,476
- translation differences	(19,795)	29,291
Share of profit of associates	5,011	5,437
Dividend income	-	4,803
Other income	26,462	14,475
Other impairment and provisions	(77,121)	(10,059)
Personnel and operating expenses	(369,465)	(366,013)
Revenues of subsidiaries	204,626	134,735
Costs of subsidiaries	(163,657)	(107,256)
Net non-interest (expense) / income	**(222,257)**	**(91,749)**
Profit before income tax expense	654,754	278,777
Income tax (expense) / benefit	(158,971)	(38,224)
Profit for the period from continuing operations	**495,783**	**240,553**
Net profit for the period	**495,783**	**240,553**

Net Interest Income

For the six months ended 30 June 2020, net interest income increased by 757,508 million soums, or 87.9 per cent., to 1,619,548 million soums from 862,040 million soums for the six months ended 30 June 2019. The increase in the period indicated was the result of the increase in interest income which is discussed below.

The Group's net interest margin amounted to 2.4 per cent. for the six months ended 30 June 2020 which reflects the downward trend compared to the increase in net interest margin during the years ended 31 December 2017, 2018 and 2019. The downward trend was primarily attributable to issuing several low interest rate loans in the first half of 2020 to finance projects in various strategic industries.

Interest Income

For the six months ended 30 June 2020, interest income increased by 880,191 million soums, or 50.2 per cent., to 2,631,991 million soums from 1,751,800 million soums for the six months ended 30 June 2019 due to the growth of the Group’s loan portfolio.

Interest Expense

For the six months ended 30 June 2020, the Group's interest expense increased by 122,683 million soums, or 13.8 per cent., to 1,012,443 million soums from 889,760 million soums for the six months ended 30 June 2019 due to an increase in the Group’s interest bearing liabilities (primarily, other borrowed funds as a result of incurrence of additional indebtedness from foreign financial institutions).

Credit loss expense

In the six months ended 30 June 2020, the Group recorded a credit loss expense in the amount of 705,439 million soums as compared to 463,198 million soums in the six months ended 30 June 2019.

The 242,241 million soum, or 52.3 per cent., increase in credit loss expense in the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 was due to the growth of the Group's loan portfolio and additional provisions made in the first half of 2020 in response to the COVID-19 outbreak and the deterioration of the quality of certain loans. See "*–Factors Affecting the Financial Statements– COVID-19 Outbreak*".

Net Fee and Commission Income

One of the largest sources of the Group's non-interest income is its fee and commission income. The Group's fee and commission income comprises primarily commissions generated by settlement transactions, guarantees and letters of credit, foreign currency exchange and other operations. For the six months ended 30 June 2020, the Group had net fee and commission income of 140,155 million soums as compared to net fee and commission income of 163,099 million soums for the six months ended 30 June 2019.

The following table sets forth the components of the Group's net fee and commission income for the periods indicated.

	Six Months Ended 30 June			
	2020		2019	
	million soums	*% of total*	*million soums*	*% of total*
	(unaudited)		(unaudited)	
Fee and commission income				
Settlements operations	60,589	34.5	91,029	45.5
Foreign currency exchange operations	27,130	15.5	22,703	11.3
Cash operations	28,808	16.4	17,287	8.6
Letter of credit and guarantee issuance	21,322	12.1	35,633	17.8
Foreign settlement operations	18,504	10.5	14,278	7.1
Operations with plastic cards	13,549	7.7	7,634	3.8
Other	5,640	3.2	11,715	5.8
Total fee and commission income	**175,542**	**100.0**	**200,278**	**100.0**
Fee and commission expense				
Cash collection services	(9,556)	27.0	(18,325)	49.3
Operations with plastic cards	(8,846)	25.0	(8,047)	21.6
Settlement expenses	(7,550)	21.3	(4,460)	12.0
Commission expense for conducting operations on guarantee	(1,056)	3.0	(1,513)	4.1
Conversion expenses	(3,878)	11.0	(2,612)	7.0
Other	(4,501)	12.7	(2,222)	6.0
Total fee and commission expense	**(35,387)**	**100.0**	**(37,179)**	**100.0**
Net fee and commission income	**140,155**		**163,099**	

The Group's net fee and commission income decreased by 22,944 million soums, or 14.1 per cent., to 140,155 million soums for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 mainly due to a decrease in fees from settlement operations and a decrease in fees from foreign settlement operations. The fees from settlement operations decreased by 30,440 million soums, or 33.4 per cent., for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 mainly due to the Uzbek Government's decision to release tax payments from any commissions as a relief measure during COVID-19 outbreak. The fees from letter of credit and guarantee issuance decreased by 14,311 million soums, or 40.2 per cent., for the six months ended 30 June 2020 as compared to the six months ended 30 June 2019 mainly due to decrease in the number of letters of credit and guarantees issued in the first half of 2020 as a result of the slowdown of business activity against the backdrop of COVID-19 pandemic.

The decrease in net fee and commission income for the six months ended 30 June 2020 was partially offset by an increase in fees from cash operations by 11,521 million soums, or 66.6 per cent., which was mainly due to an increase in number and average volume of cash withdrawal operations.

Net Gain from Foreign Currencies

The functional currency of the Group, which is the currency of the primary economic environment in which the Group operates, and the Group's presentation currency is Uzbek soum. Monetary assets and liabilities are translated into the Group's functional currency at the official exchange rate of the CBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the Group's functional currency at the period-end official exchange rates of the CBU are recognised as profit or loss.

For the six months ended 30 June 2020, the Group recorded net gain from foreign currencies of 7,587 million soums as compared to net gain from foreign currencies of 40,767 million soums for the six months ended 30 June 2019. The decrease in net gain from foreign currencies in the periods indicated was mainly due to the volatility of Uzbek soum. See "*–Factors Affecting the Financial Statements–Currency Fluctuations*".

Share of Profit of Associates

For the six months ended 30 June 2020 and 2019, the Group reported share of profit of associates in the amount of 5,011 million soums and 5,437 million soums, respectively.

Dividend Income

For the six months ended 30 June 2020 the Group reported no dividend income. For the six months ended 30 June 2019, the Group reported dividend income in the amount of 4,803 million soums, which reflected mainly the declaration and payment of dividends by the Group's subsidiary, Uzbek Republican Currency Exchange JSC.

Other Income

Other income increased by 11,987 million soums, or 82.8 per cent., to 26,462 million soums for the six months ended 30 June 2020 as compared to 14,475 million soums for the six months ended 30 June 2019, which was mainly due to the sale by the Group of premises of closed branches.

Other Impairment and Provisions

The Group other impairment and provisions increased by 67,062 million soums, or 666.7 per cent., to 77,121 million soums for the six months ended 30 June 2020 as compared to 10,059 million soums for the six months ended 30 June 2019. The increase in other impairment and provisions for the six months ended 30 June 2020 primarily reflected the creation of provisions with respect to investments and other assets.

Personnel and Operating Expenses

Personnel and operating expenses for the six months ended 30 June 2020 and 2019 remained largely stable and amounted to 369,465 million soums and 366,013 million soums, respectively.

Revenues of Subsidiaries

Revenues of subsidiaries increased by 69,891 million soums, or 51.9 per cent., to 204,626 million soums for the six months ended 30 June 2020 as compared to 134,735 million soums for the six months ended

30 June 2019, which was due to the expansion of operations by textile companies LLC "Sherobod Textile Invest" and Paxtakor Gold Textile LLC and LLC NBU Bunyodkor Invest, an investment company operating in the construction and real estate sector.

Costs of Subsidiaries

Costs of subsidiaries increased by 56,401 million soums, or 52.6 per cent., to 163,657 million soums for the six months ended 30 June 2020 as compared to 107,256 million soums for the six months ended 30 June 2019, which primarily reflected the expansion of operations by textile companies LLC "Sherobod Textile Invest" and Paxtakor Gold Textile LLC and LLC NBU Bunyodkor Invest, an investment company operating in the construction and real estate sector.

Income Tax Expense

Income tax expense increased by 120,747 million soums, or 315.9 per cent., to 158,971 million soums for the six months ended 30 June 2020 as compared to 38,224 million soums for the six months ended 30 June 2019, which was due to the increase in (i) the Group's profit before tax and (ii) the tax rate for income gained from financing of investment projects from 14-15 per cent. to 20 per cent. with effect from 1 January 2020.

Net Profit for the Year

As a result of the factors described above, the Group generated net profit for the year in the amount of 495,783 million soums and 240,553 million soums for the six months ended 30 June 2020 and 2019, respectively.

Results of Operations for the Years Ended 31 December 2019, 2018 and 2017

For the years ended 31 December 2019 and 2018, the Group's net profit for the year remained largely stable and amounted to 790,089 million soums and 788,949 million soums, respectively. For the year ended 31 December 2018, the Group's net profit decreased by 1,346,875 million soums, or 63.1 per cent., from 2,135,824 million soums compared to the year ended 31 December 2017.

The following table sets forth the components of the Group's profit for the periods indicated.

	Year ended 31 December		
	2019	**2018**	**2017**
		million soums (audited)	
Continuing operations:			
Interest income	3,971,082	2,620,568	1,389,969
Interest expense	(2,138,230)	(1,358,970)	(712,702)
Net interest income	**1,832,852**	**1,261,598**	**677,267**
Credit loss reversal / (expense)	(271,645)	556,674	(1,219,770)
Initial recognition adjustment on interest bearing assets	(188,565)	(129,677)	(121,579)
Net interest income after allowance for loan impairment and initial recognition of adjustment	**1,372,642**	**1,688,595**	**(664,082)**
Fee and commission income	446,791	391,131	338,299
Fee and commission expense	(83,073)	(74,928)	(59,062)
Net gain from financial instruments at fair value through profit or loss	28,263	-	-
Net gains/(losses) from foreign currencies:			
- dealing	44,598	69,664	441,226
- translation differences	(52,495)	(491,024)	2,494,017
Share of profit of associates	9,911	8,323	8,540
Dividend income	14,402	12,821	4,638
Other income	35,992	43,791	102,922
Other impairment and provisions	(21,727)	(45,761)	(27,832)
Personnel and operating expenses	(870,897)	(723,773)	(562,697)
Revenues of subsidiaries	365,723	76,086	38,063

Costs of subsidiaries	(292,496)	(106,503)	(25,301)
Net non-interest (expense) / income	**(375,008)**	**(840,173)**	**3,315,510**
Profit before income tax expense	**997,634**	**848,422**	**2,088,731**
Income tax (expense) / benefit	(207,545)	(59,473)	61,876
Profit for the year from continuing operations	**790,089**	**788,949**	**2,150,607**
Discontinued operations:	-		
Loss for the year from discontinued operations	-	-	(14,783)
Net profit for the year	**790,089**	**788,949**	**2,135,824**

Net Interest Income

For the year ended 31 December 2019, net interest income increased by 571,254 million soums, or 45.3 per cent., to 1,832,852 million soums from 1,261,598 million soums for the year ended 31 December 2018. For the year ended 31 December 2018, net interest income increased by 584,331 million soums, or 86.3 per cent., from 677,267 million soums for the year ended 31 December 2017. The increase in both years was the result of the increase in interest income which is discussed below.

The Group's net interest margin amounted to 6.2 per cent., 4.9 per cent. and 4.0 per cent. for the years ended 31 December 2019, 2018 and 2017, respectively.

Interest Income

For the year ended 31 December 2019, interest income increased by 1,350,514 million soums, or 51.5 per cent., to 3,971,082 million soums from 2,620,568 million soums for the year ended 31 December 2018. For the year ended 31 December 2018, the Group's interest income increased by 1,230,599 million soums, or 88.5 per cent., from 1,389,969 million soums for the year ended 31 December 2017.

The following table sets forth the principal components of the Group's interest income for the periods indicated.

	Year ended 31 December					
	2019		2018		2017	
	million soums (audited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*
Interest income						
Loans to customers	3,770,997	95.0	2,466,920	94.1	1,286,390	92.5
Cash equivalents	120,451	3.0	112,623	4.3	80,344	5.8
Amounts due from credit institutions	60,249	1.5	32,193	1.2	14,551	1.0
Investment securities	14,340	0.0	-	-	-	-
Interest revenue calculated using effective interest rate	**3,966,036**	**99.9**	**2,611,736**	**99.7**	**1,381,285**	**99.4**
Finance leases	5,045	0.1	8,832	0.3	8,684	0.6
Other interest revenue	**5,045**	**0.1**	**8,832**	**0.3**	8,684	**0.6**
Total interest revenue	**3,971,081**	**100.0**	**2,620,568**	**100.0**	**1,389,969**	**100.0**

The increase in the Group's interest income in 2019 resulted primarily from a 1,304,077 million soums, or 52.9 per cent., increase in interest income from loans to customers for the year ended 31 December 2019 as compared to the year ended 31 December 2018, which was due to the increase in the size of the loan portfolio and partly due to a more active shift towards higher-margin loans**.**

The increase in the Group's interest income in 2018 resulted primarily from a 1,180,530 million soums, or 91.8 per cent., increase in interest income from loans to customers for the year ended 31 December

2018 as compared to the year ended 31 December 2017. This growth was mainly driven by the increase in loans to customers and partly due to a more active shift towards higher-margin loans.

Interest Expense

For the year ended 31 December 2019, the Group's interest expense increased by 779,260 million soums, or 57.3 per cent., to 2,138,230 million soums from 1,358,970 million soums for the year ended 31 December 2018. For the year ended 31 December 2018, the Group's interest expense increased by 646,268 million soums, or 90.7 per cent., from 712,702 million soums for the year ended 31 December 2017.

The following table sets forth the principal components of the Group's interest expense for the years indicated.

	Year ended 31 December					
	2019		2018		2017	
	million (audited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*
Interest expense						
Other borrowed funds........................	(1,530,095)	71.6	(932,769)	68.6	(478,034)	67.1
Customer accounts	(530,030)	24.8	(389,072)	28.6	(201,745)	28.3
Amounts due to credit institutions.....	(41,915)	2.0	(24,734)	1.8	(24,278)	3.4
Subordinated loans	(26,161)	1.2	-	-	-	-
Debt securities issued	(10,029)	0.5	(12,395)	0.9	(8,645)	1.2
Total interest expense on financial liabilities recorded at amortised cost..	**(2,138,230)**	**100.0**	**(1,358,970)**	**100.0**	**(712,702)**	**100.0**

The overall increase in the Group's interest expense during the periods under review mainly resulted from increases in interest expense on other borrowed funds and interest on customer accounts.

Interest expense on other borrowed funds increased by 597,326 million soums, or 64.0 per cent., to 1,530,095 million soums for the year ended 31 December 2019 as compared to 932,769 million soums for the year ended 31 December 2018, which in turn represented an increase of 454,735 million soums, or 95.1 per cent., as compared to the expense of 478,034 million soums for the year ended 31 December 2017. The increase in 2019 compared to 2018 was primarily due to the incurrence of additional funding from the UFRD during 2019 which was offset by the settlement in kind of some of the loans incurred from the UFRD (see "*–Financial Position–Total Equity*") as well as increase in interest payable under some of the Group's financings whereas the increase in 2018 compared to 2017 were due to an increase in other borrowed funds (see "*–Financial Position–Total Liabilities"*).

Interest expense on customer accounts increased by 140,958 million soums, or 36.2 per cent., to 530,030 million soums for the year ended 31 December 2019 as compared to 389,072 million soums for the year ended 31 December 2018, which in turn was an increase by 187,327 million soums, or 92.9 per cent., as compared to expense of 201,745 million soums for the year ended 31 December 2017. Interest expense on customer accounts increased in 2019 mainly as a result of an increase in amounts due to customers in line with the Group's strategy to diversify funding sources. Interest expense on customer accounts increased in 2018 mainly as a result of an increase in average interest rates on term deposits and an increase in the volume of term deposits. See "*–Financial Position–Total Liabilities*".

Credit loss reversal / (expense)

In the year ended 31 December 2019, the Group recorded a credit loss expense in the amount of 271,645 million soums as compared to a credit loss reversal of 556,674 million soums in the year ended

31 December 2018. In the year ended 31 December 2017, the Group recorded a credit loss expense of 1,219,770 million soums.

The credit loss reversal in the year ended 31 December 2018 as compared to a credit loss expense in the year ended 31 December 2017 was primarily attributable to (i) the increase in creditworthiness of the Group's large borrowers which resulted in the decrease of probability of default and allowance levels and (ii) the shift in the historic review periods used to calculate the probability of default from 2015-2017 to 2016-2018 which resulted in the average probability of default in 2018 being twice as low as in 2017. In addition, credit loss expense in the year ended 31 December 2017 was partly attributable to currency liberalisation and a sharp decrease of soum against U.S. dollar, which affected some of the Group's clients.

The credit loss expense in the year ended 31 December 2019 was due to the growth of the loan portfolio whereas the allowance for loan impairment to gross loans ratio remained largely stable as compared to the year ended 31 December 2018. See "*Selected Financial Information– Selected Key Performance Indicators and Alternative Performance Measures*".

Net Fee and Commission Income

For the year ended 31 December 2019, the Group had net fee and commission income of 363,718 million soums as compared to net fee and commission income of 316,203 million soums for the year ended 31 December 2018 and 279,237 million soums for the year ended 31 December 2017.

The following table sets forth the components of the Group's net fee and commission income for the years indicated.

	Year ended 31 December					
	2019		2018		2017	
	million soums	*% of total*	*million soums*	*% of total*	*million soums*	*% of total*
	(audited)		(audited)		(audited)	
Fee and commission income						
Settlements operations	200,742	44.9	168,837	43.2	142,266	42.1
Letter of credit and guarantee issuance	73,410	16.4	80,509	20.6	35,049	10.4
Foreign currency exchange operation	64,981	14.5	57,401	14.7	97,093	28.7
Foreign settlement operations	34,773	7.8	26,415	6.8	16,413	4.9
Operations with plastic cards	34,178	7.6	25,464	6.5	23,235	6.9
Cash operations	14,613	3.3	20,087	5.1	8,735	2.6
Other	24,094	5.4	12,418	3.2	15,508	4.6
Total fee and commission income	**446,791**	**100.0**	**391,131**	**100.0**	**338,299**	**100.0**
Fee and commission expense						
Cash collection services	38,505	46.4	36,521	48.7	31,494	53.3
Operations with plastic cards	18,034	21.7	10,644	14.2	5,851	9.9
Settlement expenses	14,584	17.6	12,934	17.3	6,371	10.8
Commission expense for conducting operations on guarantee	6,582	7.9	7,029	9.4	3,018	5.1
Conversion expenses	3,001	3.6	6,337	8.5	11,738	19.9
Other	2,368	2.9	1,463	2.0	590	1.0
Total fee and commission expense	**83,073**	**100.0**	**74,928**	**100.0**	**59,062**	**100.0**
Net fee and commission income	**363,718**		**316,203**		**279,237**	

The Group's net fee and commission income increased by 47,515 million soums, or 15.0 per cent., to 363,718 million soums for the year ended 31 December 2019 as compared to the year ended 31 December 2018 mainly due to an increase in fees from settlement operations, an increase in other fee and commission income and an increase in operations with plastic cards. The fees from settlement operations increased by 31,905 million soums, or 18.9 per cent., for the year ended 31 December 2018. Other fee and commission income increased by 11,676 million soums, or 94.0 per cent., for the year ended 31 December 2018. The increase in both fees from settlement operations and other fee and commission income was primarily attributable to an increase in the customer base and a consequential increase in the payment operations turnover. The fees from operations with plastic cards increased by 8,714 million soums, or 34.2 per cent., for the year ended 31 December 2018 primarily as a result of an increase in volume of the plastic card operations which was attributable, to a certain extent, to the expansion of the plastic card product range, the increase in the number of ATMs and infokiosks and the upgrade of mobile application.

The increase in net fee and commission income for the year ended 31 December 2019 was partially offset by a decrease in fees from letter of credit and guarantee issuance by 7,099 million soums, 8.8 per cent., which was mainly due to a decrease in the volume of guarantee portfolio attributable to a decrease in guarantee coverage with respect to the obligations of JSC Uzbekenergo, as well as less payments being made by way of letters of credit in the context of international settlements.

The increase in the Group's net fee and commission income for the year ended 31 December 2018 was mostly attributable to growth in fees from settlement operations and an increase in fees from letter of credit and guarantee issuance. The fees from settlement operations increased by 26,571 million soums, or 18.7 per cent., for the year ended 31 December 2018 primarily as a result of the increase in the customer base and a consequential increase in the payment operations turnover. The fees from letter of credit and guarantee issuance increased by 45,460 million soums, or 129.7 per cent., for the year ended 31 December 2018 primarily as a result of the increase in letter of credit and guarantee portfolio as well as the average size thereof.

The increase in net fee and commission income for the year ended 31 December 2018 was partially offset by a decrease in fees from foreign currency exchange operation by 39,692 million soums, or 40.9 per cent., which was due to the reduction of commissions for foreign currency exchange operations on the back of the currency liberalisation in 2017. See "*–Factors Affecting the Financial Statements–Currency Fluctuations*".

The increase of the Group's fee and commission income was also partially offset by the growth in the majority of components of the fee and commission expense due to the general increase in the volume of operations in line with the increase in the fee and commission income and the corresponding increase in the volume of commissions paid.

Net (Loss) / Gain on Foreign Currencies

For the year ended 31 December 2019, the Group recorded net loss on foreign currencies of 7,897 million soums as compared to net loss on foreign currencies of 421,360 million soums for the year ended 31 December 2018 and net gain on foreign currencies of 2,935,243 million soums for the year ended 31 December 2017. The net gain on foreign currencies in 2017 was primarily attributable to the currency liberalisation reform in Uzbekistan, when the official rate of Uzbek soum was devalued from 4,210.35 soums per U.S.$1 to 8,100.0 soums per U.S.$1, representing a 92 per cent. decrease. See "*–Factors Affecting the Financial Statements–Currency Fluctuations*".

Share of Profit of Associates

For the years ended 31 December 2019, 2018 and 2017, the Group reported share of profit of associates in the amount of 9,911 million soums, 8,323 million soums and 8,540 million soums, respectively.

In 2018, the Group has founded new companies "Navro'z Bogí" LLC with amount of 85,000 million soums invested and "O`zbegim otlari" LLC with amount of 52,000 million soums invested, which operates in construction and horse breeding industries with the ownership of the Group being equal or less than 50 per cent.

In 2017, the Group has founded new companies "Paxtakor Gold textile" LLC, OOO "Boston Optimal Textile" LLC, "Arnasoy Gold Tex" LLC and "Toy City" LLC which operates in textile and toy manufacturing industries with the ownership of the Group being less than 50 per cent.

Dividend Income

For the years ended 31 December 2019, 2018 and 2017, the Group reported dividend income in the amount of 14,402 million soums, 12,821 million soums and 4,638 million soums, respectively, which reflected the declaration and payment of dividends by some of the Group’s subsidiaries, including JSC KDB Bank Uzbekistan, JSC Uzbekistan Republican Currency Exchange and JSC Uzbek Metallurgical Plant.

Other Income

Other income decreased by 7,799 million soums, or 17.8 per cent., to 35,992 million soums for the year ended 31 December 2019 as compared to 43,791 million soums for the year ended 31 December 2018, which in turn represented a decrease of 59,131 million soums, or 57.5 per cent., as compared to income of 102,922 million soums for the year ended 31 December 2017. The decrease in other income for the year ended 31 December 2019 as compared to the year ended 31 December 2018 primarily reflected no gain from the sale of investments being recorded in the year ended 31 December 2019 due to all sales being made intra-Group which was partially offset by 10,435 million soum increase in gain on disposal of fixed assets in the year ended 31 December 2019 as compared to the year ended 31 December 2018. The decrease in other income for the year ended 31 December 2018 as compared to the year ended 31 December 2017 was mainly due to a decrease in gain from sale of investments by 65,459 million soums, or 73.6 per cent., as a result of less investments being sold in 2018 as compared to 2017.

Other Impairment and Provisions

The Group other impairment and provisions decreased by 24,034 million soums, or 52.5 per cent., to 21,727 million soums for the year ended 31 December 2019 as compared to 45,761 million soums for the year ended 31 December 2018. For the year ended 31 December 2017, the Group reported allowance on credit related commitments and other impairment and provisions in the amount of 27,832 million soums. The increase in other impairment and provisions for the year ended 31 December 2018 primarily reflected the increase in provisions for investments due to higher levels of investments in securities and associates.

Personnel and Operating Expenses

Personnel and operating expenses increased by 147,124 million soums, or 20.3 per cent., to 870,897 million soums for the year ended 31 December 2019 as compared to 723,773 million soums for the year ended 31 December 2018, which in turn represented an increase of 161,076 million soums, or 28.6 per cent., as compared to income of 562,697 million soums for the year ended 31 December 2017. The increase in personnel and operating expenses for the year ended 31 December 2019 as compared to the year ended 31 December 2018 was due to an increase in headcount, average salaries and the payment of KPI-linked bonuses. The Group’s personnel expenses for the year ended 31 December 2019 were 515,972 million soums. The increase in personnel and operating expenses for the year ended 31 December 2018 as compared to the year ended 31 December 2017 primarily reflected an increase in personnel expenses, which increased by 96,972 million soums, or 28.1 per cent., from 247,981 million soums for the year ended 31 December 2017 to 344,953 million soums for the year ended 31 December 2018, primarily as a result of the increase in salaries and bonuses by 80,396 million soums, or 40.4 per cent., due to an increase in headcount and average salaries as well as the increase in other operating expenses discussed above.

Revenues of Subsidiaries

Revenues of subsidiaries increased by 289,637 million soums, or 380.7 per cent., to 365,723 million soums for the year ended 31 December 2019 as compared to 76,086 million soums for the year ended 31 December 2018, which in turn represented an increase of 38,023 million soums, or 99.9 per cent., as compared to 38,063 million soums for the year ended 31 December 2017. The increase in revenues of subsidiaries for the year ended 31 December 2019 as compared to the year ended 31 December 2018 primarily reflected the commencement of operations by a textile company LLC "Sherobod Textile Invest" and LLC NBU Bunyodkor Invest, an investment company operating in the construction and real estate sector. The increase in revenues of subsidiaries for the year ended 31 December 2018 as compared to the year ended 31 December 2017 was due to the commencement of operations by certain textile enterprises.

Costs of Subsidiaries

Costs of subsidiaries increased by 185,993 million soums, or 174.6 per cent., to 292,496 million soums for the year ended 31 December 2019 as compared to 106,503 million soums for the year ended 31 December 2018, which in turn represented an increase of 81,202 million soums, or 320.9 per cent., as compared to expenses of 25,301 million soums for the year ended 31 December 2017. The increase in costs of subsidiaries for the year ended 31 December 2019 as compared to the year ended 31 December 2018 primarily reflected the commencement of operations by certain textile enterprises, including LLC "Sherobod Textile Invest" and LLC "Zomin Textile".

The increase in costs of subsidiaries for the year ended 31 December 2018 as compared to the year ended 31 December 2017 primarily reflected an increase in operating taxes, depreciation and amortisation and charity and sponsorship expenses. The increase in operating taxes expenses by 31,248 million soums, or 41.3 per cent. was mainly due to the commissioning of textile enterprises. The increase in depreciation and amortisation expenses by 18,920 million soums, or 71.1 per cent., was mainly due to of the acquisition of fixed assets and their commissioning.

Income Tax (Expense) / Benefit

For the year ended 31 December 2019, the Group recorded income tax expense of 207,545 million soums. For the year ended 31 December 2018, the Group recorded income tax expense of 59,473 million soums as compared to a tax benefit from continuing operations of 61,876 million soums for the year ended 31 December 2017. The increase in income tax expense for the year ended 31 December 2019 was mainly due to the difference in the tax effect of other permanent differences of 123,429 million soums between the years ended 31 December 2019 and 2018. The income tax benefit for the year ended 31 December 2017 was mainly attributable to the tax effect of other permanent differences and the change in deferred tax income from continuing operations, which resulted from temporary differences between the reported value of the assets and liabilities and the value used for taxation purposes, as well as different methods and/or periods used for reporting of revenues and expenses.

Discontinued Operations

For the year ended 31 December 2017, the Group reported loss from discontinued operations in the amount of 14,783 million soums due to the sale of Horazm gilamlari LLC, Andijon Charm LLC and Gazalkent Stone LLC. The sale of Andijon Charm LLC was subsequently reversed and the Group's participation interest was reinstated. The Group did not report any profit or loss from discontinued operations for the years ended 31 December 2019 or 2018.

Net Profit for the Year

As a result of the factors described above, the Group generated net profit for the year in the amount of 790,089 million soums, 788,949 million soums and 2,135,824 million soums for the years ended 31 December 2019, 2018 and 2017, respectively.

Financial Position

The following discussion of the Group's assets and liabilities should be read in conjunction with "Risk Management" and, in particular, with the data provided under "Risk Management - Credit Risk", "Risk Management - Market Risk" and "Risk Management - Liquidity Risk".

Total Assets

The following table sets forth the principal components of the Group's total assets as at the dates set forth below.

	As at 30 June	**As at 31 December**		
	2020	**2019**	**2018**	**2017**
		million soums		
	(unaudited)	(audited)		
Cash and cash equivalents	7,777,491	7,001,599	6,614,154	11,080,508
Amounts due from credit institutions	874,798	1,777,507	1,892,000	2,006,794
Derivative financial assets	106,655	102,510	-	-
Loans to customers	59,889,588	54,174,008	46,025,482	34,521,563
Assets held for sale	9,780	10,262	20,755	195,858
Investment securities	1,210,026	218,342	47,762	60,437
Investment in associates	12,411	239,535	189,853	55,936
Property and equipment	453,614	1,383,471	912,565	233,913
Current income tax assets	1,395,053	23,590	10,993	8,616
Deferred income tax assets	350,159	244,136	244,351	198,715
Other assets	346,398	314,381	241,584	148,032
Total assets	**72,425,973**	**65,489,341**	**56,199,499**	**48,510,372**

As at 30 June 2020, the Group had total assets of 72,425,973 million soums as compared to 65,489,341 million soums, 56,199,499 million soums and 48,510,372 million soums as at 31 December 2019, 2018 and 2017, respectively.

The increase in total assets by 6,936,632 million soums, or 10.6 per cent., as at 30 June 2020 as compared to 31 December 2019, was mainly driven by the growth of the loan portfolio. Loans customers increased by 5,715,580 million soums, or 10.6 per cent., as at 30 June 2020 as compared to 31 December 2019 mainly as a result of an increase in loans to state companies. See "*–Loan Portfolio*" below.

The increase in total assets by 9,289,842 million soums, or 16.5 per cent., as at 31 December 2019 as compared to 31 December 2018 was mainly driven by the increase in loans to customers. The increase of 8,148,526 million soums, or 17.7 per cent., in loans to customers as at 31 December 2019 as compared to 31 December 2018 reflected the growth across all the components of the Group's loan portfolio: corporate loans increased by 6,987,212 million soums, or 15.7 per cent., and reached 51,517,010 million soums and loans to individuals increased by 1,496,672 million soums, or 48.8 per cent., and reached 4,560,348 million soums.

The increase in total assets by 7,689,127 million soums, or 15.9 per cent., as at 31 December 2018 as compared to 31 December 2017 is primarily attributable to the increase in loans to customers. The increase of 11,131,431 million soums, or 30.5 per cent., in loans to customers in 2018 as compared to

2017 reflected the growth across all the components of the Group's loan portfolio: corporate loans increased by 9,880,447 million soums, or 28.5 per cent., and reached 44,529,798 million soums and loans to individuals increased by 1,250,984 million soums, or 69.0 per cent., and reached 3,063,880 million soums. The increase in loans to customers as at 31 December 2018 was, however, partially offset by the decrease of 4,466,354 million soums, or 40.3 per cent., in cash and cash equivalents as compared to 31 December 2017.

Loan Portfolio

Loans to customers (net of allowance for impairment of loans to customers) is the largest component of the Group's total assets, accounting for 82.7 per cent., 82.7 per cent., 81.9 per cent., and 71.2 per cent. of total assets as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively.

General

As at 30 June 2020, the Group's gross loans to customers amounted to 62,477,871 million soums, representing a 11.4 per cent. increase from 56,077,358 million soums as at 31 December 2019. In 2019, gross loans to customers increased by 8,483,680 million soums, or 17.8 per cent., from 47,593,678 million soums as at 31 December 2018, which in turn was an increase of 11,131,431 million soums, or 30.5 per cent., from 36,462,247 million soums as at 31 December 2017.

The following table sets forth the Group's loans to customers as at the dates set forth below.

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
		million soums		
	(unaudited)	(audited)		
Corporate lending				
State companies	25,963,294	21,885,807	24,488,985	20,194,522
Private companies	21,688,254	19,348,145	13,291,014	8,164,313
State budget or local authorities	8,773,673	9,222,146	5,681,138	5,211,223
Gross investment in finance lease	958,885	973,109	989,714	1,047,162
Non-banking financial institutions	91,215	87,803	78,947	32,131
Total corporate lending	**57,475,321**	**51,517,010**	**44,529,798**	**34,649,351**
Loans to individuals				
Mortgage loans	3,087,781	2,746,278	1,905,372	1,411,484
Consumer loans	782,736	751,487	541,527	94,077
Car loans	782,941	657,190	292,977	294
Agriculture loans	296,266	353,887	281,934	268,580
Education loans	52,826	51,506	42,070	38,461
Total loans to individuals	**5,002,550**	**4,560,348**	**3,063,880**	**1,812,896**
Total gross loans to customers	**62,477,871**	**56,077,358**	**47,593,678**	**36,462,247**

The total gross loans to customers increased by 11.4 per cent., 15.1 per cent. and 30.5 per cent. for the six months ended 30 June 2020 and for the years ended 31 December 2019 and 2018, respectively, reflecting increased demand for the Group’s loans from both corporate and retail clients (in particular, loans to private companies, mortgage loans, consumer loans and car loans).

Loans to state companies accounted for 41.6 per cent., 39.0 per cent., 51.5 per cent. and 55.4 per cent. of the gross total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. Loans to state companies increased by 4,077,487 million soums, or 18.6 per cent., as at 30 June 2020 as compared to 31 December 2019 reaching 25,963,294 million soums, which in turn decreased by 2,603,178 million soums, or 10.6 per cent., as compared to 2018 reaching 21,885,807 million soums. Loans to state companies increased by 4,294,463 million soums, or 21.3 per cent., as at 31 December 2018 as compared to 31 December 2017, reaching 24,488,985 million soums. The Group has historically been financing specific strategic industries in the Republic of Uzbekistan, mainly the manufacturing, transport and communication, commerce and other sectors. The Group allocates the funds received from deposits and loans from the IFIs and foreign banks to issue loans to finance specific projects of state-owned companies in such strategic industries.

Loans to private companies accounted for 34.7 per cent., 34.5 per cent., 27.9 per cent. and 22.4 per cent. of the gross total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. As at 30 June 2020, the Group's loans to private companies increased by 2,340,109 million soums, or 12.1 per cent., as compared to 31 December 2019. The Group's loans to private companies increased by 6,057,131 million soums, or 45.6 per cent., as at 31 December 2019 as compared to 31 December 2018 reaching 19,348,145 million soums. As at 31 December 2018, the Group's loans to private companies increased by 5,126,701 million soums, or 62.8 per cent., as compared to 31 December 2017.

Loans to state budget or local authorities accounted for 14.0 per cent., 16.4 per cent., 11.9 per cent. and 14.3 per cent. of the gross total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. As at 30 June 2020, the Group's loans to state budget or local authorities decreased by 448,473 million soums, or 4.9 per cent., as compared to 31 December 2019. The Group's loans to state budget or local authorities increased by 3,541,008 million soums, or 62.3 per cent., as at 31 December 2019 as compared to 31 December 2018 reaching 9,222,146 million soums. As at 31 December 2018, the Group's loans to state budget or local authorities increased by 469,915 million soums, or 9.0 per cent., as compared to 31 December 2017.

Loans to individuals accounted for 8.0 per cent., 8.1 per cent., 6.4 per cent. and 5.0 per cent. of the gross total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. Total gross loans to individuals increased by 442,202 million soums, or 9.7 per cent., as at 30 June 2020 as compared to 31 December 2019 and reached 5,002,550 million soums. Total gross loans to individuals increased by 1,496,468 million soums, or 48.8 per cent., as at 31 December 2019 as compared to 31 December 2018 and by 1,250,984 million soums, or 69.0 per cent., as at 31 December 2018 as compared to 31 December 2017.

Distribution of Loans by Sectors

The following table sets forth distribution the Group's loans to customers by sector as at the dates set forth below.

	As at 31 December					
	2019		**2018**		**2017**	
	million soums (audited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*
Manufacturing	18,558,532	33.1	17,040,287	35.8	12,896,559	35.4
Transport and communication	14,910,171	26.6	16,600,683	34.9	13,422,585	36.8
Government social structure	7,905,070	14.1	4,940,454	10.4	4,506,174	12.4
Individuals	4,560,348	8.1	3,063,880	6.4	1,812,896	5.0
Trade and catering	2,845,057	5.1	1,925,494	4.0	1,302,374	3.6
Agriculture	1,397,323	2.5	1,364,421	2.9	838,093	2.3
Construction	2,578,144	4.6	1,037,021	2.2	780,543	2.1
Housing and Utilities	375,132	0.7	272,348	0.6	224,173	0.6
Other	2,947,581	5.3	1,349,090	2.8	678,850	1.9
Total gross loans to customers	**56,077,358**	**100.0**	**47,593,678**	**100.0**	**36,462,247**	**100.0**

Manufacturing and transport and communication sectors have historically accounted for the largest share of the Group's loan portfolio, accounting for 59.7 per cent. of the total gross loans issued by the Group as at 31 December 2019, 70.7 per cent. as at 31 December 2018 and 72.2 per cent. as at 31 December 2017.

As at 31 December 2019, 2018 and 2017, the aggregate gross amount of loans to the Group's ten largest borrowers accounted for 26,851,657 million soums (or 47.9 per cent. of gross loan portfolio), 27,996,453 million soums (or 58.8 per cent. of gross loan portfolio) and 24,307,664 million soums (or 67 per cent. of gross loan portfolio), respectively.

Distribution of Loans by Currency

The Group's loan portfolio has historically been predominantly USD-denominated, with the remainder of the loans being issued in soum, Euro and, to a lesser extent, other currencies. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's loan portfolio is heavily U.S. dollar denominated, and the quality of the Bank's loan portfolio may deteriorate as a result of slower economic growth and depreciations and devaluations of the soum against the U.S. dollar or other foreign currencies*".

The following table sets forth distribution the Group's loan portfolio by currency as at the dates set forth below.

	As at 31 December					
	2019		**2018**		**2017**	
	million soums (audited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*
USD	27,922,453	51.5	31,186,866	67.8	23,721,122	68.7
Soum	18,852,503	34.8	9,830,052	21.4	5,970,908	17.3
Euro	6,225,212	11.5	4,406,874	9.6	4,050,095	11.7
Other currency	1,173,841	2.2	601,690	1.3	779,438	2.3
Total loans to customers	**54,174,008**	**100.0**	**46,025,482**	**100.0**	**34,521,563**	**100.0**

Loans to customers denominated in U.S. dollars accounted for 51.5 per cent., 67.8 per cent. and 68.7 per cent. of the total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. Loans to customers denominated in U.S. dollars decreased by 3,264,413 million soums, or 10.5 per cent., as at 31 December 2019 as compared to 31 December 2018 and increased by 7,465,744 million soums, or 31.5 per cent., as at 31 December 2018 as compared to 31 December 2017.

Loans to customers denominated in soums accounted for 34.8 per cent., 21.4 per cent. and 17.3 per cent. of the total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. Loans to customers denominated in soums increased by 9,022,451 million soums, or 91.8 per cent., as at 31 December 2019 as compared to 31 December 2018 and increased by 3,859,144 million soums, or 64.6 per cent., as at 31 December 2018 as compared to 31 December 2017.

Loans to customers denominated in euro accounted for 11.5 per cent., 9.6 per cent. and 11.7 per cent. of the total loan portfolio as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively. Loans to customers denominated in euro increased by 1,818,338 million soums, or 41.3 per cent., as at 31 December 2019 as compared to 31 December 2018 and increased by 356,779 million soums, or 8.8 per cent., as at 31 December 2018 as compared to 31 December 2017.

NPLs

Non-performing loans, or NPLs, represent loans with payments of principal and/or interest overdue by 90 days. The Group had gross carrying value of NPLs in the amount of 1,070,704 million soums, 1,811,692 million soums, 777,341 million soums and 795,262 million soums as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively. The level of the Group's NPLs as a percentage of total gross loans to customers was 1.7 per cent., 3.2 per cent., 1.6 per cent. and 2.2 per cent. as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively.

The Group's NPLs of corporate and retail loan portfolios accounted for 1.2 per cent. and 0.2 per cent., respectively, of gross corporate and retail loan portfolios as at 30 June 2020.

Allowance for impairment of loans to customers

As at 30 June 2020, the Group allowance for impairment of loans to customers was 2,588,283 million soums as compared to 1,903,350 million soums as at 31 December 2019. As at 31 December 2018, the Group has recognised the allowance for impairment of loans to customers of 1,568,196 million soums as compared to provision of 1,940,684 million soums as at 31 December 2017. The 19.2 per cent. decrease in provisioning as at 31 December 2018 as compared to 31 December 2017 was due to the reasons set out in *"–Results of Operations for the Years Ended 31 December 2019, 2018 and 2017–Credit loss (expense) / reversal*".

Total Liabilities

The following table sets forth the principal components of the Group's total liabilities as at the dates set forth below.

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
			million soums	
	(unaudited)		(audited)	
Amounts due to the CBU and the Government	1,475,231	1,695,207	497,688	571,014
Amounts due to credit institutions	2,159,280	1,139,442	950,879	1,909,557
Amounts due to customers	16,286,561	15,507,241	11,871,894	12,110,126
Debt securities issued	922,498	131,641	145,915	176,506
Liabilities directly associated with assets held for sale	-	-	-	18,024
Other borrowed funds	37,532,082	33,115,228	37,439,050	29,382,360
Subordinated loans	1,532,805	1,459,376	-	-
Other liabilities	292,129	293,979	377,818	71,022
Total liabilities	**60,200,586**	**53,342,114**	**51,283,244**	**44,238,609**

As at 30 June 2020, the Group had total liabilities of 60,200,586 million soums as compared to 53,342,114 million soums, 51,283,244 million soums and 44,238,609 million soums as at 31 December 2019, 2018 and 2017, respectively.

The increase in total liabilities by 6,838,472 million soums, or 12.9 per cent., as at 30 June 2020 as compared to 31 December 2019, was mainly driven by growth in other borrowed funds, which increased by 4,356,168 million soums, or 13.1 per cent., as at 30 June 2020 as compared to 31 December 2019 mainly due to incurrence of additional indebtedness from China Development Bank and Gazprombank JSC.

The increase in total liabilities by 2,058,870 million soums, or 4.0 per cent., as at 31 December 2019 as compared to 31 December 2018, was mainly driven by an increase in amounts due to customers which increased by 3,635,347 million soums, or 30.6 per cent., to 15,507,241 million soums as at 31 December 2019 as compared to 11,871,894 million soums as at 31 December 2018 resulting from increase in time deposits. The increase in total liabilities was partially offset by a decrease in other borrowed funds which decreased by 4,263,136 million soums, or 11.4 per cent., to 33,115,228 million soums as at 31 December 2019 as compared to 37,439,050 million soums as at 31 December 2018. This decrease was mainly due to a decrease in funds from the UFRD by 14,753,789 million soums or 76.3 per cent., to 4,576,742 million soums as at 31 December 2019 from 19,330,531 million soums as at 31 December 2018 which was due to the transfer of certain loans to UFRD and the conversion of loans incurred from UFRD into the Bank's equity in accordance with the Presidential Decree No. 4487 dated 9 October 2019 ("**Decree No. 4487**") as discussed in more detail below. This decrease is in line with the Group's funding strategy of diversifying funding sources and reducing its reliance on financing from the UFRD and the Government and the improvement of the Bank's capital position.

As at 31 December 2018, the Group had total liabilities of 51,283,244 million soums, an increase of 7,044,635 million soums, or 15.9 per cent., from 44,238,609 million soums as at 31 December 2017. This increase was primarily due to the increase in other borrowed funds partially offset by a decrease in amounts due to credit institutions. Other borrowed funds increased by 8,056,690 million soums, or 27.4 per cent., as compared to 29,382,360 million soums as at 31 December 2017 and were mainly driven by the increase in funds from the UFRD and the Ministry of Finance.

In the six months ended 30 June 2020, the Group attracted funds from:

- China Development Bank Corporation in the aggregate amount of 1,249,193 million soums bearing the interest rate of 4.8 per cent. per annum. The proceeds from the China Development Bank Corporation loan are used to refinance the projects related to trade cooperation under the Belt and Road with participation of Chinese enterprises. The maturity of the loan is 5 years. In addition, the Group made additional drawdown under the existing credit line in the aggregate amount of 1,433,213 million soums for supporting Uzbek enterprises;

- Gazprombank in the aggregate amount of 1,519,806 million soums (equivalent to U.S.$150,000,000) bearing the interest rate of 6 month LIBOR plus 2.75 per cent. per annum. The proceeds from Gazprombank loan are used to finance loans for trade finance and capital expenditure purposes. The maturity of the loan is 6 months;

- Sumitomo Mitsui Banking Corporation in the aggregate amount of 306,924 million soums bearing the interest rate of 6 month LIBOR plus 3.95 per cent. per annum. The proceeds from Sumitomo Mitsui Banking Corporation loan are used to finance development of the telecommunication networks and information-communication infrastructure. The maturity of the loan is 12 years;

- Foreign Economic Bank of Russia in the aggregate amount of 38,266 million soums bearing the interest rate of 2 per cent. per annum. The maturity of the loan is 5 years. In addition, the Group made additional drawdown in the aggregate amount of 333,389 million soums under the existing credit line to finance an energy project;

- International Bank for Reconstruction and Development in the aggregate amount of 78,426 million soums bearing the interest rate of 6 month LIBOR plus variable spread increased by 0.2 per cent. per annum. The proceeds from International Bank for Reconstruction and Development loan are used to finance the development of agricultural and industrial enterprises. The maturity of the loan is 10 years;

- Aka Ausfuhrkredit-Gesellschaft MBH in the aggregate amount of 313,650 million soums (equivalent to EUR 30,000,000) bearing the interest rate of 6 month EURIBOR plus 3 per cent. per annum. The maturity of the loan is one year;

- Banque de Cairo in the aggregate amount 101,739 million soums (equivalent to U.S.$10,000,000) bearing the interest rate of 6 month LIBOR plus 3 per cent. per annum. The proceeds from Banque de Cairo loan are used to issue trade finance and project finance loans. The maturity of the loan is 370 days;

- Turk Eximbank in the aggregate amount 99,515 million soums bearing the interest rate from 0.4 to 2.64 per cent. per annum. The maturity of the loans ranges between 7 and 7.5 years.

In 2019, the Group attracted funds from:

- Export-Import Bank of China in the aggregate amount of 1,689,306 million soums (equivalent to U.S.$200,000,000) bearing the interest rate of 6 month USD LIBOR plus 3 per cent. per annum. The proceeds from the Export-Import Bank of China loan are used to finance loans issued to borrowers engaged in Peoples Republic of China and Uzbekistan cross-border economic and trade transactions. The maturity of the loan is 60 months;

- the UFRD in the aggregate amount of 344,332 million soums bearing the interest rate of 5 per cent. per annum. The proceeds from the UFRD loan are used to finance loans issued to small family businesses under the Program "Every Family is an Entrepreneur". The maturity of the loan is 84 months with a grace period of 36 months;
- the Uzbekistan Ministry of Finance in the aggregate amount of 781,607 million soums bearing the interest rate of 3.5 per cent. per annum. The proceeds from the loan are used to finance loans issued to sub-borrowers engaged in cotton-textile industry to finance expenditures related to cotton grain production. The maturity of the loan is 12 months;
- the Uzbekistan Ministry of Finance in the aggregate amount of 507,252 million soums bearing the interest rates ranging from 0 per cent. to 3 per cent. per annum. The proceeds from the loan are used to finance development of preschool education institutions and construction of affordable residential buildings in rural areas under different state programs. The maturity of the loans is 240 months;
- Credit Suisse AG in the aggregate amount of 973,196 million soums (equivalent to EUR 100,000,000) bearing the interest rate of EURIBOR plus 3.25 per cent. per annum. The proceeds from the Credit Suisse AG loan are used to finance loans issued to eligible sub-borrowers for trade finance and capital expenditure purposes. In June 2020, this facility was rolled over by 12 months and now matures on 18 June 2021.

In accordance with the Decree No. 4487, the loans incurred by the Group from the UFRD in the aggregate amount of 16,727,920 million soums, the proceeds from which were used to provide loans to JSC Uzbekistan Railways, JSC Uzbekistan Airways, Navoi Mining and Metallurgy Plant, JSC Uzbekenergo and local authorities, were settled in-kind by way of a transfer of the underlying loans to UFRD. In addition, pursuant to the Decree No. 4487, loans incurred from the UFRD in the aggregate amount of 6,355,378 million soums were converted into NBU's shares, which resulted in the corresponding increase in the UFRD shareholding. See "–*Total Equity*".

Generally, the loan agreements in the context of the Group's borrowings do not contain financial covenants except for the loan agreements with European Bank for Reconstruction and Development, Credit Suisse AG, Gazprombank JSC and China Development Bank Corporation. Under the terms of these facilities, the failure by the Group to comply with financial covenants set out therein entitles the lender to accelerate the relevant loan. The Group was in breach of the following financial covenants under its credit facility with Gazprombank JSC:

- Cash and cash equivalents to total assets ratio (as at 31 December 2019);
- Liquid assets to total assets ratio (as at 31 December 2019 and 30 June 2020).

As at 31 December 2019, due to the breach of the above covenants, the Group classified 342,573 million soums incurred under the Gazprombank JSC facility as current liability, as it could be subject to acceleration under the terms of the relevant facility. In September 2020, these breaches were waived by Gazprombank JSC. See "–*Recent Developments*".

In 2018, the Group attracted funds from:

- the UFRD for the aggregate amount of 3,653,727 million soums from new contracts and 2,383,848 million soums from existing credit lines for interest rates from 0 per cent. to 4.9 per cent. with maturity between 7 and 15 years to finance long term investment project under State Investment Program;
- the Ministry of Finance of the Republic of Uzbekistan for aggregate amount of 442,556 million soums from new contracts and 660,655 million soums from existing credit lines with interest rate from 1 per cent. to 3 per cent. for the purpose of implementing project of construction of

new accommodation in rural areas according to the Presidential Decree No. 2282 with maturity of up to 15 years and textile industry development project (working capital loans with interest rate from 8 per cent. to 13.5 per cent. with maturity of up to one year);

- the Asian Development Bank for aggregate amount of 284,521 million soums (to finance loans to certain agriculture enterprises bearing interest rate of 3 per cent. per annum and maturity of up to 10 years and to finance loans to certain real estate developers with individual interest rates for each projects and maturity of up to 7 years);
- the European Bank of Reconstruction and Development for the aggregate amount of 458,675 million soums with the interest rate of 6 months LIBOR plus 3 per cent. per annum and maturity of up to 5 years.

Amounts due to credit institutions decreased by 958,678 million soums, or 50.2 per cent., in 2018, mainly due to a decrease in correspondent accounts with other banks as a result of settlement of clients' orders through third-party banks.

Maturity profile of the Group's financial liabilities

Of the Group's financial liabilities as at 31 December 2019, 31,170,270 million soums, or 49.0 per cent., had a maturity of more than five years, 13,747,905 million soums, or 21.6 per cent., had a maturity profile of between one year and five years, 7,516,955 million soums, or 11.8 per cent., had a maturity between three months and one year and 11,191,456 million soums, or 17.6 per cent., had a maturity of less than three months.

Of the Group's financial liabilities as at 31 December 2018, 36,056,733 million soums, or 58.8 per cent., had a maturity of more than five years, 11,774,945 million soums, or 19.2 per cent., had a maturity profile of between one year and five years, 4,658,150 million soums, or 7.6 per cent., had a maturity between three months and one year and 8,811,238 million soums, or 14.4 per cent., had a maturity of less than three months.

Of the Group's financial liabilities as at 31 December 2017, 15,503,258 million soums, or 35.1 per cent., had a maturity of more than five years, 11,989,989 million soums, or 27.1 per cent., had a maturity profile of between one year and five years, 4,379,736 million soums, or 9.9 per cent., had a maturity between three months and one year and 12,347,602 million soums, or 27.9 per cent., had a maturity of less than three months.

See "*Risk Management–Liquidity Risk*".

Total Equity

As at 30 June 2020 and 31 December 2019, the Group's total equity was largely stable and amounted to 12,225,387 million soums and 12,147,227 million soums, respectively.

Between 2010 and 2015, the Group issued several U.S. dollar and euro-denominated loans to Uzbekistan Railways with the interest rates ranging between 2 and 2.75 per cent. per annum. These loans were, in turn, financed by U.S. dollar and euro-denominated loans incurred from the UFRD. In December 2019, the loans to Uzbekistan Railways and the underlying loans from the UFRD were converted into soums with the concurrent conversion of the underlying loans from the UFRD into the Bank's equity. In April 2020, in accordance with the Governmental decree No. 198-f, the Group amended the terms of the Uzbekistan Railways loans in the aggregate amount of 3,995,112 million soums by decreasing the interest rate from 16 per cent. to 10 per cent. per annum, which resulted in a 10 per cent. decrease in discounted cash flows of original financial assets. According to the Group's accounting policy, the amended loans were recognised as new financial assets which resulted in a 356,005 million soum loss recorded through equity as a transaction under common control. Nevertheless, given that these operations resulted in the increase of margins under the Uzbekistan Railways loans, the Bank's management believes that, overall, they had a positive effect on the Group.

As at 31 December 2019, the Group had a total equity of 12,147,227 million soums, an increase of 7,230,972 million soums, or 147.1 per cent., from 4,916,255 million soums as at 31 December 2018. This increase was mainly attributable to an increase of the NBU's share capital in accordance with the Decree No. 4487 which converted previously incurred loans from the UFRD in the amount of 6,355,378 million soums into NBU's shares, resulting in the corresponding increase in the UFRD shareholding.

As at 31 December 2018, the Group had a total equity of 4,916,255 million soums, an increase of 644,492 million soums, or 15.1 per cent., from 4,271,763 million soums as at 31 December 2017. This increase was mainly attributable to an increase in share capital by 3,053,440 million soums, or 240.9 per cent., in 2018 largely by way of conversion of retained earnings in the amount of 2,582,589 million soums into equity.

Liquidity and Capital Resources

The Group's principal sources of liquidity are other borrowed funds, amounts due to customers and amounts due to credit institutions.

Funding

The Group's funding base relies primarily on amounts due to customers and other borrowed funds (funds received from the UFRD and the Ministry of Finance of the Republic of Uzbekistan and funds raised from the IFIs). The Group's funding strategy is to continue to develop a diversified funding base in order to achieve an optimal balance between its own capital, domestic and international borrowings to cover the growing needs of the Group's business, both in terms of currency and maturity.

The following table sets out the Group's sources of funding as at the dates indicated:

	As at 30 June		**As at 31 December**					
	2020		**2019**		**2018**		**2017**	
	million soums (unaudited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*	*million soums* (audited)	*% of total*
Other borrowed funds								
Total other borrowed funds...............................	**37,532,082**	**62.6**	**33,115,228**	**62.4**	**37,439,050**	**73.5**	**29,382,360**	**66.6**
Amounts due to customers						-		
State and budgetary organisations....................	-	-	6,220,986	11.7	4,644,587	9.1	3,102,155	7.0
Private enterprises...........	-	-	5,436,424	10.2	4,205,945	8.3	5,771,367	13.1
Individuals	-	-	3,739,821	7.0	2,755,557	5.4	2,589,982	5.9
Other...............................	-	-	110,010	0.2	265,805	0.5	646,622	1.5
Total amounts due to customers.......................	**16,286,561**	**27.2**	**15,507,241**	**29.2**	**11,871,894**	**23.3**	**12,110,126**	**27.4**
Amounts due to the CBU and the Government								
Correspondent account of the CBU Correspondent account of the CBU..........	-	-	1,695,207	3.2	494,843	1.0	536,984	1.2
Funds received from CBU for lending purposes	-	-	-	-	2,845	0.0	5,080	0.0
Amounts due to the Ministry of Finance of the Republic of Uzbekistan....	-	-	-	-	-	-	28,950	0.1
Amounts due to the CBU and the Government	**1,475,231**	**2.5**	**1,695,207**	**3.2**	**497,688**	**1.0**	**571,014**	**1.3**
Amounts due to credit institutions						-		

Correspondent accounts with other banks..............	1,947,902	3.3	898,860	1.7	677,277	1.3	1,389,147	3.1
Time deposits of bank and other financial institutions	211,378	0.4	240,582	0.5	273,602	0.5	520,410	1.2
Total amounts due to credit institutions	**2,159,280**	**3.6**	**1,139,442**	**2.1**	**950,879**	**1.9**	**1,909,557**	**4.3**
Debt securities issued								
Certificates of deposit	821,675	1.4	110,158	0.2	110,158	0.2	140,862	0.3
Bonds	100,823	0.2	21,483	0.0	35,757	0.1	35,644	0.1
Total debt securities issued	**922,498**	**1.5**	**131,641**	**0.2**	**145,915**	**0.3**	**176,506**	**0.4**
Subordinated loans								
International Bank for Reconstruction and Development...................	896,559	1.5	845,687	1.6	-	-	-	-
Ministry of Finance of the Republic of Uzbekistan....	363,196	0.6	360,037	0.7	-	-	-	-
Asian Development Bank	273,049	0.5	253,652	0.5	-	-	-	-
Subordinated loans	**1,532,805**	**2.6**	**1,459,376**	**2.8**	**-**	**-**	**-**	**-**
Total funding	**59,908,457**	**100.0**	**53,048,135**	**100.0**	**50,905,426**	**100.0**	**44,149,563**	**100.0**

The following table sets forth funding available to the Group under existing material credit facilities as at 30 June 2020:

	As at 30 June 2020[(1)]	
	Utilised Amount	**Available Limit**
Landesbank Baden-Württemberg (LBBW)	EUR 330 million	EUR 330 million
Gazprombank..	U.S.$ 500 million	U.S.$ 306.8 million
Commerzbank...	EUR 350 million	EUR 350 million
KEXIM	U.S.$ 150 million	U.S.$ 107.1 million
Eximbank USA	U.S.$ 100 million	U.S.$ 100 million
Crédit Agricole	EUR 300 million	EUR 266.42 million
Natixis..	EUR 500 million	EUR 358.3 million
Sberbank Russia...	U.S.$ 350 million	U.S.$ 338.5 million
Raiffeisenbank	EUR 300 million	EUR 297.3 million
KfW IPEX-Bank..	EUR 100 million	EUR 100 million
ODDO BHF..	EUR 100 million	EUR 100 million
Sumitomo Mitsui Financial Group..	U.S.$ 200 million	U.S.$ 175 million
MUFG Bank	U.S.$ 100 million	U.S.$ 100 million
China Development Bank	U.S.$ 250 million	U.S.$ 49.5 million
VEB.RF	EUR 200 million	EUR 11 million
AKA Bank	EUR 100 million	EUR 60 million

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(1) Interest rate and maturity with respect to all facilities are determined individually for each drawdown, save for Sberbank Russia facility which bears interest at the rate of 6 months EURIBOR plus 3.4 per cent. per annum and having the maturity of 180 days.

Contingencies and Commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position. The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. See "*Risk Management–Credit Risk*".

The following table sets forth Group's credit-related commitments as the dates indicated:

	As at 30 June 2020	As at 31 December 2019	2018	2017
			million soums	
	(unaudited)		(audited)	
Credit related commitments				
Letters of credit	6,504,742	5,790,913	6,079,041	5,476,092
Undrawn loan commitments	3,908,982	3,824,638	4,213,387	1,449,163
Guarantees	1,994,540	1,903,098	2,202,175	2,076,391
	12,408,264	**11,518,649**	**12,494,603**	**9,001,646**
Other commitments				
Performance guarantees	338,128	227,915	148,324	-
Commitments and contingencies	**12,746,393**	**11,746,563**	**12,642,927**	**9,001,646**
Provision for ECL for credit related commitments	**(75,113)**	**(51,779)**	**-**	**-**
Deposits held as securities against letters of credit	(2,430,489)	(2,875,481)	(3,143,046)	(3,094,522)

For additional information on the Group's credit-related commitments see Note 27 to the Annual Financial Statements and Note 19 to the Interim Financial Statements.

Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBU in supervising the Group.

As at 30 June 2020, the Group was in compliance in full with all regulatory capital requirements.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The following table sets forth the Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks:

	As at 31 December 2019	2018	2017
		million soums, except for percentage	
At the beginning of the period	**4,825,997**	**4,246,501**	**1,474,336**
Net profit for the year	790,089	788,949	2,130,957
Capitalisation of retained earnings	906,352	(3,053,440)	-
Issuance of Share Capital	6,355,378	3,053,440	-
Impact of adopting IFRS 9	-	(332,096)	-

Distribution to shareholders of the Bank			
Dividends to shareholders of the Bank			
Contribution made by government	126,096	126,096	568,663
Other comprehensive income for the period	10,712	(3,453)	72,545
At the end of the period	**12,043,127**	**4,825,997**	**4,246,501**
Composition of regulatory capital:			
Tier 1 capital			
Share capital	11,582,700	4,320,970	1,267,530
Contribution from Shareholders	126,096	126,096	-
Retained earnings	90,358	335,635	2,970,056
Disclosed reserves	-	-	8,915
Total qualifying tier	**11,899,154**	**4,782,701**	**4,246,501**
Other reserves	101,232	43,296	-
Subordinated debt	1,459,376	-	145,277
General provision	1,293,073	1,179,753	1,358,207
Capital ratios	**14,752,835**	**6,005,750**	**5,749,985**
Tier 1 capital ratio	**20%**	**15%**	**16%**
Total capital ratio	**25%**	**18%**	**22%**

For a detailed description of the capital and regulatory ratios which apply to the Group, see "*Banking Sector and Banking Regulation in the Republic of Uzbekistan–Mandatory Ratios*".

Risk management

The Group manages its risks by risk identification, assessment and monitoring, subject to risk limits and other controlling mechanisms. The risk management process is critical to the Group's continuing profitability and each individual within the Group is responsible for the risk exposures relating to his or her professional responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to operating risks. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process. For more details on risk management system of the Group see "*Risk Management*" and Note 28 to the Annual Financial Statements.

Credit risk

Credit risk is the risk that the Group will incur a loss if its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into four categories, as described below:

- *Stage 1*. When loans are first recognised, the Group recognises an allowance based on twelve months expected credit losses ("**ECL**"). Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- *Stage 2*: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the long term ECL ("**LTECL**"). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- *Stage 3*: Loans considered credit-impaired. The Group records an allowance for the LTECL.

- *POCI*: Purchased or originated credit impaired ("**POCI**") assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted effective interest rate. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

The Bank's management believes that the level of allowance for impairment of loans to customers as at 30 June 2020 covers all significant overdue loans.

Geographical concentration

The Assets and Liabilities Management Committee ("**ALMC**") exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimise potential losses from the investment climate fluctuations in the Republic of Uzbekistan.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposits withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial periods. Current liability is managed by the Treasury Department, which is engaged in transactions on the money markets for current liquidity and cash flow optimisation.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on customers' and banking operations, which is part of assets/liabilities management process. The Management Board of the Group sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Market risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as it borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The Treasury Department also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign
exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Treasury Department controls currency risk by managing the open currency position on the estimated basis of soum devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimise losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBR.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The non-trading equity price risk exposure arises from the Group's investment portfolio.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

Significant Accounting Policies and New Accounting Standards

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019, including the following:

- *IFRS 16 Leases*. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets"). The Bank assesses that the implementation of IFRS 16 has no material impact on the consolidated financial statements of the Group.

- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. These amendments had no impact on the consolidated financial statements of the Group.

- *Amendments to IAS 19 Plan Amendment, Curtailment or Settlement*. The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments had no impact on the consolidated financial statements of the Group.

- *Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

IFRS 9 Financial Instruments

Since 1 January 2018, the Group has implemented IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. Accordingly, since 1 January 2018, the Group has recorded the allowance for expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset falls within the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The Group did not restate the comparative information for the year ended 31 December 2017 in the Group's audited consolidated financial statements for the year ended 31 December 2018 as a result of IFRS 9 implementation.

For a detailed description of the nature and the impact of each amendment listed above, please see Note 3 to the Annual Financial Statements. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of consolidated financial statements under IFRS requires the Group's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments made regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on the management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Recent Developments

Since 30 June 2020, the Group incurred additional indebtedness from a number of financial institutions, as discussed in more detail in "*Capitalisation*".

In September 2020, Gazprombank JSC issued a letter waiving the breach by the Group of cash and cash equivalents to total assets ratio and liquid assets to total assets ratio under the facility agreement dated 2 November 2017.

In September 2020, the share capital of the Bank was increased by 395,374 million soums to 11,978,074 million soums by way of capitalisation of retained earnings. The increase was made pro rata to the UFRD and the Ministry of Finance of the Republic of Uzbekistan shareholdings.

BUSINESS

Overview

Established in 1991, the Bank is a domestic systemically important bank and one of the leading universal banks in the Republic of Uzbekistan offering a full spectrum of banking products, services and solutions. According to the CBU, as at 1 June 2020, the Bank was ranked as the largest commercial bank in Uzbekistan by total assets (24 per cent. market share), by capital (25 per cent. market share), by deposits (17 per cent. market share), by loan portfolio (25 per cent. market share) and by net profit (19 per cent. market share). The Bank benefits from a strong shareholder base and a commercially-oriented business model and provides a comprehensive range of banking services, including state, corporate and retail lending, deposit-taking, customer accounts, international money transfers, letters of credit, guarantees, foreign exchange operations and other products. The Bank conducts its banking operations through its head office in Tashkent, a diversified distribution network which, as at 30 June 2020, included 73 branches, 30 mini-banks, 35 centres for banking services, 105 exchange desks, 38,999 banking terminals, 18 self-service points, 301 ATMs and 332 infodesks and an integrated online banking platform and mobile application.

The Bank has historically operated as a state financing vehicle on the basis of funding provided by state agencies, such as the UFRD and the Ministry of Finance of the Republic of Uzbekistan, for subsidised financing of investment projects in a number of strategic industries, being mainly manufacturing and transport and communication, and has otherwise in its day-to-day operations relied on funding provided by the Uzbekistan Government in the form of predominantly subsidised loans, deposits, capital injections and state guarantees, as well as funding received as borrowings from the IFIs. The Bank has also historically participated in the financial rehabilitation of insolvent companies in Uzbekistan pursuant to the directions issued by the Government. See "*–History*".

Since 2019, as part of the on-going economic reforms in Uzbekistan, the Bank is undergoing a transitional reform of its banking organisation from being dependent on state control, support and funding towards a more market-orientated business model. Under this transition strategy, the Uzbekistan Government has been gradually decreasing its influence on the business and loan portfolio of the Bank, as well as reducing the state support financing available to the Bank as well as the state guarantees that borrowers of the Bank have benefitted from and which the Bank has received as credit support. See "*–Competitive Strengths–History of strong shareholder support*".

Following such strategic transition, the Bank intends to rely less on state subsidised financing in its funding base and instead to rely to a larger extent on funding from other sources, such as syndicated loans from foreign financial institutions and international capital markets, including eurobonds and credit linked notes issuances, as well as increase the share of deposits from private companies and retail deposits in its funding base. Furthermore, the Bank is taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of the Uzbekistan's economy, such as agriculture, retail, foreign trade, construction, extraction and processing of fuel and energy resources, as well as to further develop its long-standing relationships with large corporate clients in manufacturing and transport and communication sectors on more commercial and market orientated terms. In addition, in order to remain competitive and maintain its leading position in the Uzbekistan banking sector while ensuring greater customer satisfaction, the Bank is also planning to implement a number of innovative products and services and digital-based solutions. See "*–Strategy–Expansion of product range and shift towards a client-centric model*" and *"–Strategy–Transformation into a digital bank*".

As at 30 June 2020, the Group's total assets comprised 72,425,973 million soums. Total gross loans to customers amounted to 62,477,871 million soums, with gross loans to corporate clients and gross loans to individuals accounting for 92.0 per cent. and 8.0 per cent. of total gross loans, respectively. As at 30 June 2020, the Group's total equity constituted 12,225,387 million soums. For the year ended 31

December 2019 and six months ended 30 June 2020, the Group generated profit of 790,089 million soums and 495,783 million soums, respectively.

The Bank was incorporated as a government specialised bank in 1991 and was converted into a joint-stock company in 2019. The Bank operates under banking licence No. 22 issued by the CBU on 15 February 2020. The Bank is domiciled in the Republic of Uzbekistan with its registered and head office being located at 101, Amir Temur street, Yunusabad district, Tashkent city, 100084, Republic of Uzbekistan. The telephone numbers of the registered office and the head office of the Bank are +998 78 148-00-10 and +99871 234-23-95. As at the date of this Prospectus, the Bank has the following long-term ratings: BB- from Fitch, B1 from Moody's and BB- from S&P.

History

The Bank was established as the National Bank for Foreign Economic Affairs of the Republic of Uzbekistan by Decree of the first President of Uzbekistan I. Karimov in September 1991 and commenced its business operations on 7 October 1991.

By 1992, the Bank was covering approximately 95 per cent. of all international payments involving Uzbekistan and increased its network of foreign correspondent banks to 83 by the end of the year. In 1993, the Bank expanded its network of correspondent banks further to 120 banks in 35 countries and became a member of the SWIFT system.

In 1994, the Bank opened over 100 specialised exchange offices in Tashkent and regional centres of the Republic of Uzbekistan. The Bank began acting as a state agent for attracting foreign investments and servicing foreign loans. In 1996, the Bank expanded its client base further by offering its products and services SME.

From 1997 to 2001, the Bank started preparing its financial statements in accordance with the IFRS, commenced cooperation with international banking associations (in particular, Asian Bankers Association and Association of Development Financing Institutions in Asia and the Pacific) and expanded its network of correspondent banks further.

In 2003, the Bank commenced its investment banking operations by offering underwriting services in respect of corporate bonds issues.

From 2004 to 2006, the Bank completed implementation of the automatic banking system "Globus", expanded its retail product offering to 70 products and services, commenced money transfers through Western Union and launched a proprietary money transfer system in cooperation with its subsidiary, Asia Invest Bank JSC.

From 2007 to 2013, the Bank was mostly focusing on increasing market recognition, expanding the product line and increasing its client base which resulted in the number of customers exceeding three million in 2013.

Since 2008, the Bank has participated in the financial rehabilitation of almost 70 companies operating in various industries which were subsequently transferred to new owners, save for one which was placed under the management of Hotel Lotte Co. Ltd.

From 2013 to 2018, the Bank established partnerships with MoneyGram, UNIStream, Zolotaya Korona and Contact. In 2015, the Bank became an associate member of Visa International Association. In 2017, the Bank was one of the first banks in Uzbekistan to introduce VISA e-commerce service.

In 2018 and 2019, the Bank focused on diversifying the range of its premium products. In 2018, in cooperation with Visa International and Uzbekistan Airways the Bank began issuance of co-branded cards Visa Gold and Visa Platinum. In addition, the Bank launched the Milliy mobile application in 2018. In 2019, the Bank became the first bank in Uzbekistan to issue the premium card Visa Infinite.

In 2019, based on the Presidential Decree of the Republic of Uzbekistan No. PP-4540 "On Measures to Transform State Unitary Enterprise "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" into a Joint Stock Company" dated 30 November 2019 ("**Decree No. PP-4540**"), the Bank was converted into a joint-stock company. The Bank's transformation to a joint-stock company was made as a part of the reform to reduce state control in the banking sector of Uzbekistan. Historically, the substantial part of the Group's loan portfolio was subsidised by the Government and covered by state guarantees, which served as one of the tools to ensure high quality of the Group's loan portfolio and reduce credit risk. However, since 2019, in line with Decree No. PP-4540, the Bank has shifted towards a more market-orientated business model, decreasing its reliance on state support and funding. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Recent and Expected Banking Reforms*". Decree No. PP-4540 also changed the immediate shareholding structure of the Bank with the Ministry of Finance and the UFRD becoming its shareholders instead of the Cabinet of Ministers of the Republic of Uzbekistan. However, the Republic of Uzbekistan remained the sole ultimate beneficial owner of the Bank. See "*Principal Shareholders*" and "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Recent and Expected Banking Reforms*".

Competitive Strengths

In line with its strategy, the Bank has consistently implemented a number of initiatives to ensure its sustainable development, remain competitive and maintain its status of a modern financial institution offering a broad range of products and services based on best international standards and practices. The Bank values its clients and adheres to a client-centric business model seeking to achieve strong client loyalty and highest level of customer satisfaction. In addition, the Bank actively engages with local industries offering affordable financing for technical and technological modernisation.

Management believes that the Bank benefits from the following competitive strengths:

History of strong shareholder support

The Uzbekistan Government has historically provided substantial financial support to the Bank to finance its business, which allowed the Bank to provide more attractive loans resulting in higher client loyalty and greater customer recognition. The Bank's management believes that the state support, including capital injections, enables the Bank to increase its assets and grow its loan portfolio despite low interest rates and lower margins. In addition, the Bank being a state owned company operating in developing economy is generally considered to be more reliable than private banks and more likely to receive state support in the event of financial crisis or contraction.

In 2018, the Bank received an interest free loan from the Government in the aggregate principal amount of 548,677 million soums. Gain from the initial recognition of this borrowing has been recognised as additional equity contribution made by the Government for total amount of 126,096 million soums. The management believes that, the Bank's shareholders will continue to provide capital injections or other funding as long as the Republic of Uzbekistan holds the controlling share of the Bank. See "*Risk Factors–Risks Related to the Group's Business and Industry–The banking sector in Uzbekistan and the Bank are undergoing a transition period*", "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Uzbekistan Government*" and "*Risk Factors–Risks Related to the Group's Strategy–The Bank's strategy is determined by the Uzbekistan Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders*".

Leading position in the banking market, currently high-quality customer base and growing loan portfolio, supported by a conservative risk management system

The Bank holds the leading position in Uzbekistan by assets, capital, deposits, loan portfolio and net profit. According to the CBU, as at 1 June 2020, the Bank was ranked as the largest commercial bank in Uzbekistan by total assets (24 per cent. market share), by capital (25 per cent. market share), by deposits (17 per cent. market share), by loan portfolio (25 per cent. market share) and by net profit (19 per cent. market share). In addition, the Bank benefits from a well-established position in the foreign trade turnover with over 70 per cent. of foreign trade transactions in Uzbekistan being serviced by the Bank.

To ensure resilience of asset quality and profitability of its loan portfolio, the Bank seeks to maintain a combination of low-risk loans to strategic sectors (such as manufacturing and transport and communication) backed by state guarantees, which account for the vast majority of the portfolio, and loans to private companies and retail loans which generally provide for higher margins as compared to the loans to strategic sectors. This combination, as well as the expected increase in SME and retail lending, in conjunction with a conservative loan underwriting policy, resulting in higher average portfolio margins, as opposed to lending exclusively to strategic sectors backed by state guarantees only, while maintaining a prudent risk profile. The level of the Group's NPLs as a percentage of total gross loans to customers was 1.7 per cent., 3.2 per cent., 1.6 per cent. and 2.2 per cent. as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively.

As at 30 June 2020, the Group's gross corporate loan portfolio accounted for 92.0 per cent. of its total gross loans whereas the Group's gross loans to state companies comprised 45.2 per cent. of the Group's gross corporate loan portfolio. Despite the COVID-19 outbreak, the Group has increased its net loan portfolio by 5,715,580 million soums, or 10.6 per cent., as at 30 June 2020 as compared to 31 December 2019, while maintaining low levels of NPLs (which was largely achieved through adhering to a conservative underwriting policy and lending to creditworthy customers with established credit history and strong financial standing and, to a lesser extent, restructuring of loans through extension of payment holidays) and diversification of its loan portfolio by focusing on sectors with an established presence, economic growth dynamics and long-term customer relations, such as manufacturing and transport and communication.

The Bank enjoys long-standing relationships with large corporate clients in manufacturing, transport and communication sectors and has a deep understanding of their business, industry and needs. The Bank plans to further strengthen its relationship with these clients by providing them with tailored higher-margin products, including loans, bank guarantees and letters of credit. In addition, the Bank has been taking steps to diversify its loan portfolio and client base to increase the share of higher-margin loans attributable to developing sectors of the Uzbekistan's economy such as agriculture, foreign trade, extraction and processing of fuel and energy resources, metallurgy, construction and construction materials, thermal power plant servicing, film industry and other industries. Furthermore, the Group has also focused on increasing the retail loan portfolio. As at 30 June 2020, its retail loan portfolio increased by 442,202 million soums, or 9.7 per cent., compared to 31 December 2019, which resulted in the increase of the share of retail loans in the Group’s gross loan portfolio from 5.0 per cent. as at 31 December 2017 to 6.4 per cent. as at 31 December 2018, 8.1 per cent. as at 31 December 2019 and 8.0 per cent. as at 30 June 2020.

The Bank follows stringent risk management policies and procedures and has conservative credit approval processes and underwriting criteria, all of which are intended to maintain the quality of its assets as its loan portfolio grows. It also has an integrated control framework encompassing operational risk management and control, anti-money laundering compliance and corporate and information security. The Group maintained NPL coverage ratio of over 100 per cent. in each of 2019, 2018 and 2017. The Bank has also implemented a contemporary control and collection system, which allows it to maintain the high quality of its loan portfolio. See "*Risk Management*". Furthermore, the Bank is currently developing a modern and extensive risk management system tailored to cover the Bank's transition strategy and planned operational and internal control network. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's risk management strategies and procedures are developing and may not be completely effective*" and "*–Strategy–Further development of risk-management system*".

Robust capital position and sound liquidity

The Group benefits from a robust capital base allowing it to pursue its growth plans. The Group's total capital adequacy ratio was 31 per cent., 25 per cent., 18 per cent. and 22 per cent. as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 13 per cent. The Group's tier I capital adequacy ratio was 24 per cent., 20 per cent., 15 per cent. and 16 per cent. as at 30 June 2020 and 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 10 per cent.

The Group's leverage ratio (calculated as Tier I capital divided by sum of total assets and off-balance sheet assets (obligations to issue loans, letters of credit, guarantees)) amounted to 14.0 per cent., 15.5 per cent., 7.0 per cent. and 7.4 per cent. as at 30 June 2020, 31 December 2019, 2018 and 2017, respectively, with the statutory minimum of 6 per cent.

The Group also sustains adequate levels of liquidity, including by maintaining a diverse funding base comprising short-term sources of funding (including corporate and retail customer deposits, inter-bank borrowings and borrowings from the foreign banks) and long-term sources of funding (including term corporate deposits, borrowing from international multi-development and international banks, sales and purchases of securities). See "*Financial Review – Funding*".

Broad range of products and diversified banking network with a variety of offline and online channels

The Bank's management believes the range of financial products offered by the Bank is one of the most comprehensive in the Uzbekistan banking market. The Bank offers a full range of credit, financial cash settlement and other banking services in national and foreign currencies. The Bank is focusing on improving quality of service by creating innovative products and becoming a high-tech, agile and resilient bank. In pursuit of its strategy to ensure highest quality of service, the Bank has developed and is implementing the shift towards a client-centric business model based on customer-oriented approach and a combination of conventional and innovative products which suit a broad range of clients. See *"–Strategy–Expansion of product range and shift towards a client-centric model*".

The Bank provides its retail customers with a wide range of banking products through its branch network and online banking channels. As at 30 June 2020, according to CBU, the Bank had one of the most diversified distribution networks in Uzbekistan with included 73 branches, 30 mini-banks, 35 centres for banking services, 105 exchange desks, 38,999 banking terminals, 18 self-service points, 301 ATMs and 332 infodesks and an integrated online banking platform and mobile application. See "*–Distribution Network*" below. Through its client-centric product range, large network, online and mobile presence and 24/7 service, the Bank is able to reach a broad customer base which is one of the key building blocks for the planned business expansion.

Developed corporate governance and experienced management with a deep understanding of the local market

The Bank's senior management team is comprised of experienced and highly-qualified professionals with a proven track record of achieving growth and meeting financial performance targets. The Bank's management team has extensive experience in Uzbekistan's banking market with an average of over 18 years' experience in the financial sector and a strong understanding of the local financial services sector as well as the client's needs.

In order to maintain highest level of expertise of its personnel, including the management team, the Bank implements training programmes based on best international practices. The Bank's long-term goal is to maintain and enhance a strong corporate governance profile. The Bank plans to introduce a new corporate governance model for sustainable development based on the best international practices of protection of shareholders rights, independence of the Supervisory Council, transparency of management system and shareholders relations, prevention of corporate conflicts and asset value growth. In 2019, the Bank adopted the revised Code of Corporate Governance, Supervisory Council Code and Management Board Code, implementing best practices and increasing transparency. The Bank's Supervisory Council currently consists of five members, including one independent non-executive director, which was appointed in July 2020. See "*Management*".

Strategy

The Bank's strategic objective is to further strengthen its position as the leading commercial bank in Uzbekistan and become the bank of choice for its customers. The Bank aims to continue providing tailored high-quality corporate and retail banking products and services based on the best international and domestic practices while maintaining strong and sustainable performance and achieving a strategic goal of transformation into a more of a market-orientated and less state-reliant financial institution.

The key pillars of the Bank's strategic development are set out in the 2023 Strategy. In accordance with the 2023 Strategy, the Bank endeavours to achieve its transformation through the implementation following stages:

- organisational and technological transformation, while maintaining functionality and reliability of the existing business and IT systems;
- optimising personnel (which includes the elimination of redundant positions and relocation of staff to ensure higher efficiency) for sustainable development of all divisions;
- building convenient and efficient system of multi-channel interaction with customers; and
- introducing new IT platform and transfer of the entire business to it.

The Bank endeavours to achieve the above strategic objective through the implementation of the following targets:

Further diversification of client base and funding sources

One of the main strategic goals of the Bank is to implement large-scale changes within its business, reflecting the Bank's ambition to become more diversified and profitable. To this end, the Bank plans to further diversify and increase its client base by targeting SME, companies with stable fundamentals, companies operating in services sector and home-based enterprises, as well as providing funding in the context of state programmes for the social and economic development of the regions.

As part of its transformation strategy, the Bank intends to gradually decrease the share of state financing in its funding base and to rely instead to a larger extent on other sources of funding, such as syndicated loans from foreign financial institutions and international capital markets including eurobonds and credit linked notes issuances, as well as increase the share of deposits from private companies and retail deposits in its funding base. However, the Bank intends to continue financing certain state projects, such as projects aimed at the development of preschool education, the improvement of housing conditions, the development of the residential mortgage lending market and supporting service sector, in reliance on state funding and backed by state guarantees. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank and some of its customers would be adversely affected if it and they did not continue to receive capital support from the Uzbekistan Government*", "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank faces liquidity and funding risk*", "*Risk Factors–Risks Related to the Group's Business and Industry–The banking sector in Uzbekistan and the Bank are undergoing a transition period*" and "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's strategy is determined by the Uzbekistan Government as its major shareholder. Interests of the Bank's shareholders or management may conflict with those of the Noteholders*".

As at 30 June 2020, the Group's total gross loan portfolio amounted to 62,477,871 million soums, representing an increase of 11.4 per cent. as compared to 31 December 2019. In line with its transition strategy, the Bank focuses on increasing the share of higher-margin loans attributable to developing sectors of Uzbekistan's economy, such as production of electrical household appliances, production of construction metal structures and products, development of the hospitality industry, construction of residential and non-residential buildings, vegetable and fruit cultivation and processing and other industries.

The Bank plans to diversify its funding base primarily by attracting long-term indebtedness in soum. In addition, in order to further diversify the funding sources, the Bank continues to actively develop retail banking. As at 30 June 2020, the Group’s balance of amounts due to customers was 16,286,561 million soums, as compared to 15,507,241 million soums, 11,871,894 million soums and 12,110,126 million soums as at 31 December 2019, 2018 and 2017, respectively. The share of amounts due to individuals in the Group’s total customer accounts amounted to 24.1 per cent., 23.2 per cent. and 21.4 per cent. as at 31 December 2019, 2018 and 2017, respectively.

Expansion of product range and shift towards a client-centric model

To meet the needs of the clients in a rapidly changing environment and ensure greater customer satisfaction, the Bank seeks to expand its product range by introducing new products and services and pursue a client-centric business model.

In this regard, the Bank expects to broaden its product line by introducing innovative products such as e-commerce MasterCard QR payments and NFS payments and offering consulting services to exporters. The Bank also seeks to expand the range of banking services offered online by introducing online loans and deposits, online currency conversions and money transfers, online scoring and marketplace e-commerce.

In addition, the Bank is in the process of the implementation of a client-centric approach seeking to structure the business processes around, and tailor its product offering to, its clients and their needs and developing customer-oriented innovative systems. The Bank is focusing on quality of services provided and the convenience of service channels to its clients and is implementing a "one stop shop" approach, allowing clients to access a full spectrum of services they need. In particular, in addition to the conventional banking products, the Bank plans to offer ancillary services, such as legal, accounting, tax, insurance, documentary, brokerage and other services with a view to increase the Group’s fee and commission income, attract new clients and increase cross-selling capabilities. As part of the client-centric approach, the Bank seeks to increase its operational efficiency, reduce the product time to market, diversify its distribution network, including the introduction of branches for premium clients and developing quality control systems. In addition, the Bank is currently adapting its branches, ATMs and terminals for people with disabilities and developing standards for providing services to this group of clients, including access to remote banking services via online and mobile banking, card delivery services and electronic document management.

Transformation into a digital bank

The Bank’s strategic goal of implementing innovative products is highly dependent on the level of digitalisation and IT infrastructure. Accordingly, investing in IT modernisation, upgrades of software and hardware, mobile and online banking technologies and the introduction of cutting-edge multichannel banking technology in order to achieve greater level of digitalisation of business processes and enhance on-line product offering, is one of the Bank’s key strategic priorities. The Bank's management believes that a strong IT platform and high level of digitalisation and automation of certain processes (including, the implementation of automatic credit scoring system) would improve the work efficiency further, which is particularly important in light of the Group’s growth plans.

The main priorities of IT transformation are the implementation of big data solutions and digitalisation. Digitalisation will include implementation of a database management unit (data office) and establishment of a digital development division (digital office). The data office will be responsible for the development of a strategy in the area of corporate data, ensuring high precision and completeness of data, overseeing data usage, managing trainings for employees in the area of data management and overseeing data access. The digital office, in its turn, will be responsible for shaping the digital strategy and monitoring its implementation as well as creating a "digital mentality" among managers and employees. The digital transformation will target four areas:

- business support (improvement of in-house activities and corporate content management, financial planning, personnel management, external data transfer and procurement processes);
- risk management and reporting (automation of treasury processes, fraud prevention activities, and introduction of BI (business intelligence));
- sales and distribution channels (implementation of chat-bots, scoring systems and agents and partners network, queue management, digital sales, marketing and customer relationship management, development of online and mobile banking, ATM and terminal management, as well as development of call centres and voice technologies); and
- products and services (implementation of API management system, business processes management robotisation, digitalisation of payment and settlement systems, overdue debt management and state information systems connectors).

The overall developments will be based on service-oriented IT architecture approach.

In addition, the Bank plans to create a proprietary corporate data storage and a single "operating system" with a view to achieve a significant increase in the share of online sales in the overall sales of products and services and transfer of approximately 70 per cent. of internal workflow and communications with counterparties into a digital form. See "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion*".

Further development of risk-management system

The Bank maintains a multi-tier independent risk management system designed to prevent business lines from aggressive risk taking and introduce adequate and balanced risk prevention measures across all business lines using in-house expertise and external consultants' resources. To maintain a prudent risk management strategy in the context of a planned business expansion, the Bank intends to continue developing its risk management system in line with the best industry standards, which is expected to involve the rollout of an automated credit scoring model, the upgrade of the credit approval and underwriting systems, liquidity and capital adequacy management systems, implementation of additional risk identification metrics and ensuring risk-oriented approach through the entire business cycle.

Further development of high-quality corporate governance model and retention of qualified personnel

The Bank's strategic goal is to maintain and further develop a strong corporate governance and management model. The Bank is continually improving its corporate governance system by implementing the best domestic and global practices. In 2019, the Bank adopted its Corporate Governance Code to further develop the transparency and efficiency of its corporate governance. Furthermore, as part of its efforts to maintain leading positions in the market, an important strategic goal of the Bank is to improve the professional skillset of its employees. To this end, the Bank plans to cooperate with such Russian entities as Sberbank, Gazprombank and Moscow School of Economics to improve skills and financial acumen of its employees. See "*–Employees*".

Commitment to social responsibility and ESG principles

As part of its strategic objective the Bank remains committed to ESG principles and actively participates in various social-oriented projects as well as focuses on the development of corporate and social responsibility. The Bank is financing over 1,000 social projects, including construction of kindergartens and modern sport facilities, construction of affordable housing, development of cotton and fruit and vegetables clusters. In addition, in line with the Presidential initiatives to support the services sector, entrepreneurship and new workplaces, the Bank launched a lower interest rate loan programme offering loans bearing interest rate of 15 per cent. per annum with the maturity of three years.

Following the outbreak of the COVID-19 pandemic, the Bank has initiated the reassessment of its 2023 Strategy to see which adjustments may need to be introduced into its implementation plan. However, the Bank expects the key pillars of the 2023 Strategy to remain unchanged. See "*Risk Factors–Risks Related to the Group's Business and Industry–The implications of the COVID-19 pandemic could have a material adverse effect on the Group's financial condition, results of operations and prospects as well as the value of the Notes*".

Subsidiaries

Below is the description of the Group's key consolidated subsidiaries:

- *Asia Invest Bank JSC,* a 95.95 per cent. owned Russian subsidiary of the Bank which was founded in 1996 with the primary objective of servicing foreign trade operations between Russia and Uzbekistan. The operations of Asia Invest Bank JSC are concentrated in Moscow;

- *NBU Invest Group JSC,* a 100 per cent. owned subsidiary of the Bank, which provides asset management services and other financial services excluding insurance and pension products;

- *Invest Group Centre LLC*, a 100 per cent. owned subsidiary of NBU Invest Group JSC, which provides office and residential premises renting and motor transport and sports and recreational services;

- *Bunyodkor NBU Invest LLC,* a 100 per cent. owned subsidiary of the Bank, which is an investment company operating in the construction and real estate sector with a primary focus on the construction of marketplaces; and

- *Sherobodtextile Invest LLC*, a 60.65 per cent. owned indirect subsidiary of the Bank whose main business activity is the manufacturing of cotton yarns.

In accordance with the Decree No. PP-4540, the Group contemplates the disposal of some of its subsidiaries engaged in the non-core business of the Group. See "*The Banking Sector and Banking Regulation in the Republic of Uzbekistan–Recent and Expected Banking Reforms–Decree No. PP-4540*".

Business Operations

For IFRS purposes, the Group's operations are treated as a single reportable segment. Operationally, the Group has three main business units. These business units offer different products and services, and are managed separately because they require different technology and marketing strategies. The following summary describes the operations in each of the business units:

- Corporate banking: lending to state companies, private companies, state budget and local authorities and non-banking financial institutions, overdraft lending, factoring, forfaiting operations, leasing, letters of credit, guarantees, corporate deposits, settlements and money transfer, currency conversion;

- Retail banking: comprises retail demand and term deposit services; retail lending, including car loans, agriculture and education loans, mortgages and other loans to individuals, money transfers and private banking services; banking card products, settlement and money transfer, currency conversion for individuals; and

- Investment banking: investment banking services to corporate clients, including the arrangement of securities issue and placement in the domestic and international capital markets.

Client Base

Operationally, the Group diversifies its client base into the following categories, in each case depending, among other things, on turnovers, cash flows, account balances, size of loans and deposits and revenue generated:

- state organisations;
- strategic clients;
- corporate clients;
- small enterprises; and
- retail clients.

As at 30 June 2020, the Group’s client portfolio included 2,222 state organisations, 33 strategic clients, 183,579 corporate clients, 62,072 small enterprises and 3,497,157 retail clients. In addition, the Group's corporate client base is further divided into the following subsegments: standard, large, corporate and VIP.

For the purposes of IFRS reporting, the loan portfolio is divided into: loans to state companies, loans to private companies, loans to state budget or local authorities and loans to non-banking financial institutions, while customer accounts are divided into amounts due to state and budgetary organisations, private enterprises and individuals. See "*Financial Review–Financial Position–Total Assets–Loan Portfolio*".

Corporate Banking

Corporate Banking includes banking services to state and municipal organisations and corporate clients. The Bank offers customers of its corporate banking department a range of banking products and services, including investment and corporate loans; deposits; fee- and commission-based products and services such as settlements, guarantees and letters of credit; and other products and services. The main customers of the Bank's corporate banking department are state and municipal organisations, large industrial companies, construction companies, companies operating in trading and service sectors, commercial structures of small businesses and private entrepreneurs (which the Group recognises as corporate clients for reporting purposes). The Bank participates actively in the interbank lending market and constantly raises and places short-term loans with banks in Uzbekistan, Europe, Asia and CIS, including the Russian Federation. Interest rates and the amount of raised and allocated interbank loans are determined on the basis of bid/ask quotes in the national and international financial markets. On the credit side, the Bank's offering for state and municipal organisations and corporate clients includes project financing for new investment projects, as well as the expansion and renewal of existing operations. These loans cover purchasing of equipment, materials, new product samples, other assets and technologies.

As at 30 June 2020, the Bank served customers of its corporate banking department through its 73 branches, 30 mini-banks, 35 centres for banking services and 105 exchange desks. Services are provided on the basis of the "one stop shop" principle, which contributes to the development of business plans, feasibility studies, identification of mechanisms and sources of financing.

The Bank's strategic objective for corporate banking is to increase the efficiency of corporate business through focus on high-margin products and long-term partnership. The Bank plans to utilise its resource base and client reach to build a high-quality sales team and tailored corporate customer service.

Corporate Products and Services

The Bank provides customers of its corporate banking department with a wide range of banking products which are discussed below.

State Companies Lending

The Group is actively engaged in lending to companies which are fully or partially owned by the Republic of Uzbekistan, including those involved in major infrastructure programmes and development projects, as well as to various non-profit budget organisations. The Group is involved in financing projects of national importance, including investing in creating new production capacities in enterprises of various sectors, the modernisation, technological re-equipment of existing capacities. The Group provides loans for investment in oil production and refining, mechanical engineering, food industry, non-ferrous and ferrous metallurgy, textile industry, agricultural production, communications infrastructure, transport and tourism, as well as in other priority sectors of the Uzbekistan economy. These loans are generally provided on a non-subsidised basis.

Since 2017, as part of its investment programme, the Group has financed a number of non-subsidised projects for the aggregate amount of approximately U.S.$2 billion, including the following completed and ongoing projects:

- construction of the Bukhara oil refinery;
- construction of the railway line "Tashguzar - Boysun - Kumkurgan";
- reconstruction of the Ferghana oil refinery;
- construction of Turakurgan thermal power plant ("**TPP**"), modernisation of Syr-Darya TPP and Navoi TPP in the aggregate amount of U.S.$299.2 million;
- reconstruction and modernisation of the airport of Navoi;
- upgrading the aircraft fleet of Uzbekistan Airways in the aggregate amount of U.S.$202.2 million;
- supply of mining equipment for Navoi Mining and Metallurgical Plant in the aggregate amount of U.S.$259.5 million;
- construction of the gas pipeline "Akhangaran - Pungan";
- purchase of agricultural equipment produced by CASE company by Uzagromashservice Association and Uzprommashimpex;
- construction of a propane-butane mixture installation to increase the production of liquefied gas at the Mubarak Gas Processing Plant;
- purchase of Daimler-Chrysler buses for Tashgorpasstrans Association;
- purchase of passenger electric locomotives for Temir Yollari;
- modernisation and provision of equipment for the existing fleet of drilling rigs of NHC "Uzbekneftegaz";
- construction of gas dehydration at the Kungrad compressor station;
- construction of casting and rolling complex of JSC Uzmetkombinat in the aggregate amount of U.S.$86.0 million;

- construction of above-ground metro lines and electrification of railroads for Temir Yollari in the aggregate amount of U.S.$150.1 million;
- projects in oil and gas industry in the aggregate amount of U.S.$80.0 million;
- projects in textile industry in the aggregate amount of U.S.$65.6 million.

Corporate Lending

The Bank offers investment loans and working capital loans nominated in national or foreign currency for its large corporate clients. Working capital loans in soum bear an annual interest rate of up to 24 per cent. per annum for a period of up to 18 month. Working capital loans in relation to purchase of raw materials produced outside of Uzbekistan are provided for up to two years with an annual interest rate between 5 and 8 per cent. The Bank accepts pledge of property and mortgages, as well as loan default insurance and suretyships as a collateral for these type of loans.

In line with its strategy, the Bank grants loans to SME for investment projects (i.e., for creation, acquisition of fixed assets, for development and implementation of new products, processes, services and systems). Loans for investment projects in soum bear an annual interest rate of 22 per cent. per annum for a period of up to three years; loans in foreign currency are provided on different terms (depending on the choice of foreign bank) with an annual interest rate ranging between 4 and 10 per cent. per annum for up to ten years.

In addition, the Bank provides SME with short-term working capital loans to finance the purchase of raw materials, components and other acquisitions related to business operations. Soum-denominated loans are provided with an annual interest rate of 22 per cent. per annum (for production activities) and 26 per cent. per annum (for retail activities) for a period of up to three years, depending on the type of the activity and financing. Interest rates for loans in foreign currency at the expense of the Bank's own funds are specified individually for each project. Interest rates for loans funded through foreign credit lines bear an interest rate for each project of up to 6.5-9 per cent. per annum. The Bank also provides SME with working capital credit lines. In such case, the Bank requires the amount of collateral to be at least 125 per cent. of the amount of the credit line opened. The term of general agreement for credit line is up to 5 years and the term of each loan issued within the credit line is less than 18 months.

The Bank also offers special credit products for farmers. The loans are available for entities planting fruits and vegetables that have signed a trilateral agreement with the local authorities and the Ministry of Agriculture of the Republic of Uzbekistan. Working capital loans are provided for a period of up to 18 months with a grace period (during which no amortisation payments are made) of up to six months with an annual interest rate of 24 per cent. per annum. Loans to purchase fixed assets (including refrigeration warehouse and greenhouse equipment) are provided for a period of up to seven years with a grace period of up to 24 months with an annual interest rate of 22 per cent. per annum (in soum) and 8.5-10 per cent. per annum (in foreign currency, funded through foreign credit lines).

Deposits

The Bank provides a range of current and term accounts to customers of its corporate banking department, and seeks to develop and offer new products to meet customer needs. See *"–Strategy–Expansion of product range and shift towards a client-centric model*". The Bank offers competitive interest rates on its corporate deposits and seeks to support margins through operational efficiencies and through its mobile and online platforms. As at 30 June 2020, the Bank had over 105,290 depositors attributable to its corporate banking department and the total volume of customers accounts attributable to its corporate banking department amounted to 12,052,832.6 million soums, representing 75 per cent. of the Group's total customer accounts. The Bank offers soum-denominated deposit products with maturity from one year, the interest rate of up to 16 per cent. per annum and no cap on deposit amount. The interest is paid on a monthly basis every month without capitalisation. In case of full or partial withdrawal of the deposit the Bank reduces the interest paid. The Bank offers foreign currency-denominated deposit products with maturity from one year, the interest rate of up to 3 per cent. per annum and no cap on deposit amount. The interest is paid on a monthly basis without capitalisation. In case of full or partial withdrawal of the deposit the Bank pays no interest.

Documentary Operations

Documentary operations are an important tool of international banking. In 2018, the Bank recorded a significant increase in the volume of export and import letters of credit. The Bank has a large number of international correspondent banking relationships and, as a result, its letters of credit and collection are accepted by the majority of the leading banks globally and all of the major banks in Russia, Europe and Asia. The Bank has agreed limits with different international banks and credit lines. The Bank provides documentary operations for its clients in U.S. dollars, Euros, Russian rubles, British pounds sterling and Japanese yen. The Bank has a wide network of correspondent banks, represented by first-class banks in Europe, Asia and the USA, such as JP Morgan Chase, Citibank, The Bank of New York Mellon, Commerzbank, Deutsche Bank, Sumitomo Mitsui Banking Corporation, MUFG Bank, Societe Generale, Credit Suisse, Sberbank, VTB and others. As at 31 December 2019, the Bank had 650 correspondent banks, including 627 foreign banks in 81 countries.

The main clients of the Bank's documentary operations services are companies in the manufacturing and transport and communication sectors. For its letters of credit, the Bank utilises funding from foreign bank credit lines, the UFRD loans and the Bank's own funds. For the six months ended 30 June 2020, the Bank has opened 281 import and 104 export letters of credit for the total amount of 4,516,980.72 million soums and 854,563.92 million soums, respectively.

Currency Operations and Money Transfers

The Bank is an active participant in the interbank currency market since 1992. The Bank provides the following currency products: (i) attraction and subsequent placement of funds of partner banks and corporate clients in major freely convertible currencies (USD, EUR, JPY, GBP, RUB, CHF, CNY) for various periods at current rates of the interbank money market; and (ii) carrying out conversion operations in the international foreign exchange market (FX Market) in major world currencies such as, RUB, USD, EUR, JPY, GBP, CHF, CNY on the terms of a SPOT / FORWARD transaction. The Bank also provides for consulting support for its clients.

Using international money transfer systems, a client can receive and send a transfer in cash or non-cash foreign and national currencies. In2020, the Bank began operations in the money transfer market of Uzbekistan. As at the date of this Prospectus, the Bank has a significant share in this market segment. The Bank's customers have access to several money transfer systems, such as Contact, Western Union, UNIStream, Zolotaya Korona, MoneyGram and Asia Express. As at 30 June 2020, the Bank has 81 offices for international money transfer. At the same time, integration processes are being carried out for all international money transfers with the "Milliy" mobile application, with which a client, without leaving home, can receive or send money from any country and to any country.

Foreign trade activities

The Bank has a strong presence in foreign trade turnover with over 70 per cent. of foreign trade transactions in Uzbekistan serviced by the Bank. The Bank offers a wide range of export-import lending services, including issuance of guarantees for the repayment of advance payments and execution of contracts, discounting bills of exchange, factoring, direct lending by the Bank to Uzbek exporters, project and export-import financing, issuance of letters of credit with deferred payment and performing conversions upon delivery and sale of goods by the client on a consignment basis.

Banknote Operation

The Bank offers the following banknote operations: sale and purchase of foreign currency banknotes; "fit/fit" sale and purchase of used banknotes (good quality/fed fit) and new banknotes.

Retail Banking

The Bank's retail banking services include retail lending products, such as consumer loans, mortgage loans, car loans, agriculture and education loans; as well as personal services, including deposits, debit cards, payments and transfers, foreign exchange and safe deposit boxes. Currently, all retail clients of the Bank form one category, however, going forward, the Bank plans to start categorising its retail clients into VIP and mass segment for operational purposes, while no categorisation is currently being planned for reporting purposes.

As at 30 June 2020, the Bank had over four million retail customers. The Bank's retail customer base includes employees of large customers and their small business partners. As at 30 June 2020, the number of employees of the Bank's corporate clients was more than 492 thousand. The Bank intends to build a retail business of new scale and efficiency, in particular through attracting employees of its corporate clients as retail customers with a lower degree of credit risk, developing tailored marketing strategies and products, as well as developing the Bank's retail banking staff, policies and procedures. In addition, the Bank is actively developing its digital capabilities to keep pace with the rapid development of information technologies. See *"–Strategy–Transformation into a digital bank*".

As part of its strategy, the Bank has particularly focused on growing its retail business. As a result, the Group's retail loan portfolio (excluding mortgage loans) increased by 106.3 billion soums, or 5.6 per cent., as at 30 June 2020 as compared to 31 December 2019, which significantly increased the share of retail loans in the Group's gross loan portfolio. As at 30 June 2020, NPLs in retail loan portfolio accounted for 0.2 per cent. of the Group's gross retail loan portfolio. Retail customer deposits increased by 317 billion soums, or 10 per cent., as at 30 June 2020 as compared to 31 December 2019.

As part of the retail business development strategy, in 2020, the Bank introduced salary plastic cards with the possibility of obtaining an overdraft loan. The Bank sees a significant growth potential in expansion of credit card and overdraft services. In this regard, the Bank aims to improve the quality of services and offer new products. New specialised profit-oriented banking products are being developed to serve individuals. See *"–Strategy–Expansion of product range and shift towards a client-centric model*".

In the retail lending sector, the Bank's most significant competitors are JSC SQB, JSC Ipoteka bank, JSC Xalq bank, JSC Mikrokreditbank and JSC Hamkor bank.

Retail Products and Services

The Bank provides its retail customers with a wide range of banking products through its branch network and online banking services:

Retail Loans

The Bank's retail loans are granted to the following three categories of retail borrowers: employees of the Bank’s payroll clients (approximately 42 per cent. of the total retail loans), employees serving in the public sector (approximately 49 per cent. of the total retail loans) and other clients (approximately 9 per cent. of the total retail loans). The Bank has a number of retail lending programmes, including mortgage, consumer, car, agriculture and educational loans. The Bank offers the loan products on the following conditions:

- mortgages – provided for purchase of real estate housing in rural areas (18 per cent. per annum interest rate), cities (20 per cent. per annum interest rate) and in Tashkent (22 per cent. per annum interest rate) with the loan term of up to 20 years. The Bank requires collateral in the form of mortgage of the real estate acquired for this type of loan covering at least 125 per cent. of the loan size.
- consumer loans – provided for consumer needs with the loan term of up to three years (three months grace period applies), total loan size for up to 44 million soums and the interest rate of 24 per cent. per annum. The Bank requires collateral covering at least 125 per cent. of the loan size for this type of loan.
- car loans – provided for purchase of cars manufactured in Uzbekistan with the loan term of up to three years (three months grace period applies), total loan size for up to 300 million soums and the interest rate between 22 and 24 per cent. per annum. The Bank requires collateral in the form of pledge of the car acquired covering at least 125 per cent. of the loan size for this type of loan.
- agriculture loans – provided to entrepreneurs for agriculture investment projects and as working capital loans. The loan term for investment projects loans is up to seven years (two year grace period applies) and for working capital loans is up to 18 months (six months grace period applies) with an annual interest rate of 21 per cent. per annum (in soum) and up to 8 per cent. per annum (in foreign currency, funded through foreign credit lines). The Bank requires collateral covering at least 125 per cent. of the loan size for this type of loan.
- education loans – provided for the full-time education of students in higher educational institutions of the Republic of Uzbekistan on a contract basis for the total loan size of up to 30 million soums. The term and the interest rate depend of the type of educational programme: for bachelor's programmes - interest rate of 21 per cent. per annum with tenor of three years or interest rate of 23 per cent. per annum with tenor of five years; for master's programmes - interest rate of 21 per cent. per annum with tenor of three years. The Bank requires collateral covering at least 125 per cent. of the loan size for this type of loan.

The Bank also offers special loan terms for the goods manufactured in the Republic of Uzbekistan, such as office equipment and household appliances in retail outlets located in MEDIA PARK markets and doors and windows from AKFA and IMZO companies. The loan is available for individuals under the age of 65 with regular income and a pension for the total loan size of up to 44.6 million soums with the loan term of up to two years and the interest rate of 22 per cent. per annum. The Bank requires collateral covering at least 125 per cent. of the loan size for this type of loan.

The Bank offers overdraft services for personal needs to employees of enterprises and organisations in respect of which the Bank acts as a salary bank. The loan is provided for 12 months (with a two months grace period applies) and the interest rate of 22 per cent. per annum. The total loan size is limited by the amount of a triple average monthly salary. The Bank requires collateral in the form of a third-party guarantee or a certificate of insurance of loan default.

Customer Deposits

The Bank offers six types of deposits on flexible conditions. For deposits in national currency the deposit period varies from one month to 27 months, the deposit amount varies from 100,000 soums and the interest rate varies from 11 to 18 per cent. per annum. For deposits in foreign currency the deposit period varies from three months to 27 months, the minimum deposit amount is one euro or U.S.$ 50 and the interest rate varies from 2 to 5 per cent. per annum.

Bank Cards

As at 1 January 2020, the number of issued bank cards (which comprise debit and credit cards) was approximately 2.6 million, of which approximately 2.1 million were bank cards of the local payment system "UzCard", approximately 350 thousand bank cards of the local payment system "HUMO" and approximately 150 thousand were bank cards of the international payment system Visa. The Bank offers different types of cards, including credit cards, virtual cards and transport cards. The Bank offers a number of benefits to the cardholders, including cashback services, loyalty programmes and discount programmes. The total turnover of bank cards in 2019 as compared to 2018 increased by 2,979 billion soums and amounted to 10,695 billion soums, including turnover in sales and service outlets of 6,065 billion soums. In 2018, in cooperation with Visa International and Uzbekistan Airways the Bank began the issuance of co-branded cards Visa Gold and Visa Platinum. In 2019, the Bank introduced premium card Visa Infinite. In 2020, the Bank is planning to issue China Union Pay cards and MasterCard premium payment cards. The Bank is also considering projects with e-commerce China Union Pay, VISA, MasterCard and China Union Pay contactless bracelets.

Currency Operations and Money Transfers

In 2018, the Bank rolled out services for online purchases of foreign currency. As at 30 June 2020, over 129 thousand purchase applications for the total amount of U.S.$38.6 million have been submitted to the Bank online. Furthermore, to attract additional client base for money transfer operations, the Bank's cancelled fees on transactions with the purchase of foreign currency through Milliy mobile application. See also "*–Corporate Banking–Corporate Products and Services–Currency Operations and Money Transfers*".

Investment Banking

Based on the Bank's assessment of publicly available data, the Bank's management believes that the Bank is the largest investment bank in Uzbekistan. As at 30 June 2020, the Group's investment portfolio amounted to 1,454,212.6 million soums. The Bank's investment banking services provide for diversification of the economy and reducing the resource dependence of Uzbekistan, import substitution and export development, supporting innovations and productivity and development of territorial clusters.

The Bank endeavours to maintain a leading position in investment banking market, supporting development of Uzbek national export potential and the introduction of innovative products and services. As a part of its strategy, the Bank is planning to create a project factory as a cooperation between the Bank's investment centres and investment companies. The project factory is intended to assist in the implementation the investment projects from pitching to execution by serving as a platform where the interested investors meet the investees. The project factory would also allow the parties to use the investment consulting, private banking and wealth management services offered by the Bank. In addition, the project factory would also allow using the Bank’s financing capabilities where the funds invested by the investors are insufficient to implement a project.

As an investment bank, the Bank also offers its clients underwriting services. The Bank provides for a full range of services when issuing bonds, including preliminary consultation, assistance in the registration of issuance with the state registration authority, bonds underwriting among investors and payments. In addition to underwriting services, the Bank also offers consulting services to clients in relation to restructuring and privatisation.

Treasury

The Treasury department manages liquidity of the Bank through analysis of instant, current and long-term liquidity, preparation of liquidity forecasts, determination of the Bank's liquidity needs, assessment of the impact of Bank's operations on liquidity and review of liquidity ratios for each currency position. The Treasury department of the Bank is responsible for liquidity management, in particular, through securities trading. The Bank has a diversified investment portfolio consisting of both government bonds and shares of corporate entities. Furthermore, the Bank as an issuer has placed bond placements for the aggregate amount of 170 billion soums over the past 10 years. In line with its strategy, the Bank is expecting to finance retail and mortgage projects by attracting foreign credit lines in national currency from international financial institutions and to finance investment projects by attracting funds from foreign investors, including through the Notes issuance.

International Relations

The Bank cooperates with leading international financial institutions and foreign banks to establish joint support for companies in the real economy as well as small businesses and private enterprises. International financial institutions that have provided funding to the bank include International Bank for Reconstruction and Development, Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), Export-Import Bank of Korea, US Export-Import Bank and China Development Bank. The Bank has a wide network of correspondent banks, represented by first-class banks in Europe, Asia and the USA, such as JP Morgan Chase, Citibank, The Bank of New York Mellon, Commerzbank, Deutsche Bank, Sumitomo Mitsui Banking Corporation, MUFG Bank, Societe Generale, Credit Suisse, Sberbank, VTB and others.

Distribution Network

As a part of its strategy, the Bank expects that its retail branch networks will remain the main channel for customer interaction with increasing focus on digital channels, such as online and mobile banking systems.

Branches

As at 30 June 2020, the Bank had 73 branches. The main function of the branches are integrated sales and customer consulting. The Bank's branches operate seven days per week, with extended opening hours to accommodate its customers' needs. The Bank also plans to introduce "premium" branches, differentiating the branch network by client categories. The Bank plans to further expand its branch network in order to initially attract and process high-quality retail customers, which further transfer the majority of their banking operations to the Bank's online banking system. The Bank plans to open seven centres for banking services and 20 self-service points by the end of 2020. The Bank's goal is to integrate the branch network into the Bank's ecosystem along with the remote channels of sale such as online banking and mobile application.

Points of sale

As at 30 June 2020, the Bank served its clients through 30 mini-banks, 105 exchange desks, 35 centres for banking services and 18 24/7 self-service points.

Mini-banks

Mini-banks provide services primarily to retail customers, where the client can get all the same services provided in ordinary branches but with some restrictions in the amounts handled. Mini-banks have advantages as compared to the traditional branches, as smaller size allows mini-banks to be placed more conveniently for the client and make their visit more pleasant. Visitors can independently familiarise themselves with the tariffs and the list of banking products, using the modern information board installed in the mini-bank.

Exchange Desks

The Bank operates exchange desks in all branches and banking centres. The foreign exchange offices provide services to customers for currency exchange from local currency to foreign currencies (as well as from foreign currencies to local currency) such as USD, EUR, RUB, CHF, JPY, GBP and KZT.

Centres for Banking Services

Centres for banking services are the Bank's separate divisions offering same range of services as the branches. The centres for banking services are aimed to provide for availability and convenience of banking services offered by the bank to corporate and retail clients.

Self-Service Points

Self-service points provide for cash collection from individuals in self-service mode. These points are generally opened in those areas where the Group has set up mini-banks in order to complement the services offered thereby. The self-service points represent an alternative to the branches in terms of regional expansion and are generally opened in those areas where the opening of branches would not be practicable or commercially viable. The clients may pay for mobile services, internet, utilities and telephone and other services using their Uzcard or HUMO cards, as well as make other banking operations, including change of password, enabling of SMS informing, access to balance and recent transactions information.

ATMs

For the convenience of its clients, as at 30 June 2020, the Bank has installed 301 ATMs, 332 info kiosks and 38,999 terminals, of which 38,104 thousand are in retail outlets and 895 are in bank service outlets. The transaction turnover in the terminal network of the Bank for the year ended 31 December 2019 amounted to 8,150 billion soums.

Internet and Mobile Banking

The Bank provides its customers with 24/7 access through the Milliy mobile application and online banking platform. As at 30 June 2020, the total number of users-individuals of the Bank's mobile application exceeded 180 thousand and the total number of users-companies of the Bank's online banking services exceeded 24 thousand.

IBank is the Bank's online banking service that helps to manage customer accounts via Internet. IBank allows customers to submit financial documents to the Bank, control all stages of bank payments and transactions and receive current information on accounts status, balance and cash flows for any period online at any time using any computer with the Internet connection and an e-key. The Bank's Milliy mobile application allows customers to make transfers between cards and wallets and exchange operations, make payments for services and utilities fees, manage the customers' cards, control expenses and monitor the status of the account at any time using the mobile phone.

In order to maintain its leading position in the retail market, the Bank signed agreements with leading international payment systems, such as Visa International, Mastercard Worldwide and UnionPay International, on the accession of the Bank as a principal member of these payment systems. In 2019, the Bank was the first in Uzbekistan to launch Visa Direct service, allowing users to make transfers in the Milliy mobile application.

Competition

The banking market in Uzbekistan is highly consolidated and competitive. According to the CBU, as at 1 August 2020, 31 banks were registered in Uzbekistan and the five largest banks held 65 per cent. of total banking assets.

The Bank faces competition from the leading domestic banks in each of the business areas in which it operates, and also from a number of banks with foreign participation in retail business, however, currently, the Bank's management does not consider foreign banks to be a significant competitor. The Bank considers its major competitors to be:

- in corporate banking segment: JSC SQB, JSC Asaka bank, JSC Ipoteka bank, JSC Agrobank and JSC Hamkorbank;
- in retail segment: JSC Hamkorbank, JSC Kapitalbank, JSC SQB and JSC Ipoteka bank;
- in investment banking segment: JSC SQB, JSC Asaka bank and JSC Ipoteka bank.

Furthermore, the ongoing transition of the Bank and the banking industry generally to a more market-orientated and commercial model will likely result in increased competition for the Bank with other state-owned banks, foreign and private banks for the same client base. Moreover, notwithstanding the fact that the Group has banking experience in almost all industries, expansion of the Bank's client base to new industries and sectors holds an additional degree of operational and credit risk, as the Bank may not have sufficient knowledge, procedures and resources to adequately evaluate and measure creditworthiness of new types of customers, including retail. See *"Risk Factors–The Bank operates in a competitive industry", "Risk Factors–The Bank may not be able to implement its strategy to grow its business, and may be subject to risks relating to its expansion"* and *"–The Bank may not be able to accurately assess the credit risk of potential and current borrowers".*

Information Technology

The Bank views IT as an integral part of its daily operations and is committed to modernising its existing information technology infrastructure and continuing to invest in information technology in order to improve its service and efficiency. The Bank seeks reliability, safety, quality, efficiency and scalability in its information and computer systems. The Bank currently utilises integrated automated banking system (IABS), introduced in September 2019. The system benefits from 24/7 availability, as well as improved information security and a better user interface design. The Bank is currently developing its core systems software (core banking software, Internet, Mobile banking, and human resources software) with the assistance of Fido Business LLP. IBM hardware is used for the database servers of the Bank's core banking system and all other applications.

Each computer within the Bank’s network has ESET nod32 antivirus programme installed, which ensures protection from threats to the Bank's IT system. In addition, the Bank purchased 2019 Dynamic Threat Defense. In 2019, the Bank completed full replacement of network equipment by Cisco specialists. In 2020, the Bank completed audit in relation to PCI DSS processing centre standard and remote banking services system. With the assistance of technical specialists and developers the Bank is upgrading its current IT infrastructure. In 2020, the Bank plans to replace the firewalls with the new ones from Cisco.

Based on the requirements of the time, the Bank has begun the process of digital transformation with the involvement of leading consulting companies, which will make it possible to reach a new level of development and increase the attractiveness of the Bank for customers. Between 2020 and 2021, the Bank intends to complete the automated unified 24/7 banking system, create the unified information base with online analytics. The Bank is also developing IBank online internet banking (with international bank transfers, export and import operations, online loan portfolio and trading floor) and Milliy mobile banking application (with online retail loans applications, VISA card-to-card transfers, international money transfers and QR code and NFC payments). See also "*Risk Factors–Risks Related to the Group's Business and Industry–The Bank's IT systems may malfunction, fail to secure the Bank against hacking, or be insufficient to support future business expansion" and "–Strategy–Transformation into a digital bank ".*

Insurance

The Bank has an insurance policy for banking operation risks from JSC Uzagrosugurta insurance provider, covering against the Bank's losses from intentional fraudulent actions of employees, as well as loses from fraudulent alteration of a document and losses from counterfeit notes and coins. In addition, the Bank has a property insurance, covering risks of natural disasters, terrorist attacks, unlawful acts of third parties and other accidents. The Bank monitors its insurance coverage to ensure that it maintains an appropriate level of coverage.

The Bank participates in the state deposit insurance programme. The State Deposit Insurance Fund guarantees repayment of 100 per cent. of individual deposits in case of business failure and revocation of the CBU banking licence.

Employees

The Bank is investing in development of human capital and creating an attractive working environment for talented professionals, promoting the Bank's corporate culture and values based on innovativeness, engagement, focus on results and teamwork. The personnel management system is aimed at improving its effectiveness to achieve strategic goals. The Bank's management considers the development of human capital to be an integral part of the Bank's potential and a priority. To attract qualified personnel, the Bank cooperates with universities, organises internships and participates in international events and projects. The Bank also is optimising its hiring process making it faster and more convenient for both the Bank and its potential employees. The Bank cooperates with such Russian entities as Moscow School of Economics, Sberbank (Sberbank Corporate University) and Gazprombank (Department of Economics and Banking of Gazprom) to improve the skills and financial literacy of its employees. The Bank intends to implement innovative learning technologies, including adaptive and micro learning. The Bank also provide educational opportunities to its employees through Banking and Finance Academy of Republic of Uzbekistan and the Bank's Training Centre, including short trainings, master degree programmes, international cooperation, as well as training programmes abroad and double degree programmes. The Bank also participated in the programme for transformation of the Banking and Finance Academy of Republic of Uzbekistan into a cutting-edge educational institution. The Bank's employees also complete on-site and online trainings, provided by the CBU and the Uzbekistan Banking Association. The Group also provides the e-learning opportunities for its employees. In addition, the Bank offers a number of cultural and professional development programmes with a view to keep the key personnel turnover rate below 10 per cent. and increase the share of employees with higher education to 60 per cent. The Bank focuses on providing growth opportunities for its own employees as well as attracting highly qualified personnel from the market. To increase commitments of its employees, the Bank is also introducing a new motivation system based on achievement of certain KPIs. The motivation system will take into account personal performance, improvement of professional knowledge, innovations and optimisation suggestions, teamwork and client-centricity.

The following table sets forth the number of employees of the Bank as at the dates indicated below:

	As at 30 June	As at 31 December		
	2020	2019	2018	2017
Total	5,816	5,849	5,880	5,671

In 2020-2021, the Bank expects to achieve a gradual headcount reduction by approximately 5-10 per cent. due to automation and optimisation of various business processes.

There is a collective agreement with the Bank's employees which regulates employments rights and benefits and professional duties.

The pension system of Uzbekistan requires contributions from the Bank in respect of its employees, calculated as a percentage of current gross salary payments. To support its qualified personnel and to stimulate the professional development, the Bank has implemented a policy on non-state pension arrangements that provides for additional pension benefits to certain types of employees.

Legal Proceedings

From time to time, the Bank is subject of legal proceedings and other investigations in the ordinary course of its business. As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the Bank's financial position or profitability.

Recent Developments

On 30 July 2020, the Bank's Supervisory Council approved the acquisition of 51 per cent. of shares in "YAGONA UMUMRESPUBLIKA PROTSESSING MARKAZI" LLC, which is an operator of Uzcard payment system, for 21,502 million soums. The acquisition was completed on 4 August 2020.

RISK MANAGEMENT

Overview

The Bank is subject to banking risks, including credit, market, liquidity, operational, macroeconomic, reputational, strategic and anti-money laundering ("**AML**") risks. Accordingly, the Bank considers the risk management to be an important part of its overall corporate management strategy. The following is a description of the Bank's risk management policies and procedures in respect of the aforementioned risks. For a more detailed description of the Bank's risk management policies and procedures, see Note 28 to the Annual Financial Statements.

In order to ensure efficiency of the risk management system, the Bank implemented a three-tier risk management model which is structured as follows:

- first tier – all business departments which are subject to banking risks in their day-to-day operations. First tier divisions assess the risks prior to entering into a loan agreement and monitor risks across all business activities and ensure compliance with risk limits and other components of the risk management system;
- second tier – the Risk Management Department, the Internal Control Department and the IT and Banking Security Department. The second tier divisions oversee compliance with limits and set g risk management requirements, develop risk management methods and instruments, analyse and assess the risks and arrange trainings for the first tier employees; and
- third tier – the Internal Audit Department. This division is responsible for controlling and overseeing front-desk and risk management divisions. The Internal Audit Department ensures compliance with internal regulations and assesses the efficiency of the internal control system.

Risk Management Structure

Risk Management Bodies

The key risk management bodies of the Bank include:

- the Supervisory Council;
- the Management Board;
- the Banking Risk Committee;
- the Asset and Liability Management Committee;
- the Investment Committee;
- the Credit Committee;
- the Risk Management Department;
- the Internal Control Department;
- the IT and Banking Security Department; and
- the Internal Audit Department.

Supervisory Council

The Supervisory Council is responsible for the approval of the Bank's risk management policy (including policies in relation to the risk identification, management, monitoring and reporting), setting the Bank's risk limits, granting certain approvals and authorisations relating to risk management and providing recommendations based on risk reports. It is also responsible for overseeing compliance with prudential requirements and capital adequacy requirements, established by the CBU. In addition, after revising internal risk management policies the Supervisory Council will be responsible for providing an annual comprehensive risk report to the General Shareholders' Meeting for its consideration. See also *"Management—Supervisory Council"*.

Management Board

The Management Board is responsible for integration of risk-related policies approved by the Supervisory Council in the Bank's business activities. It also approves risk policies developed by the Risk Management Department. The Management Board is responsible for the regular reporting to the Supervisory Council on the risk management status and results of stress testing. See also *"Management—Management Board*".

Banking Risk Committee

The Banking Risk Committee is vested with overseeing the functioning of the risk management system, making forecasts in relation to overall risk level and particular risks and taking actions for mitigation of potential risks. The Banking Risk Committee determines main objectives of the risk management system and sets limits in relation to the macroeconomic risk. The Banking Risk Committee reviews report on risk management status and results of stress testing and reports to the Supervisory Council on a quarterly basis. The Banking Risk Committee also analyses the Bank's departments' risk management activities and compliance with internal policies.

*Asset and Liability Management Committee ("**ALMC**")*

The ALMC is one of the main risk management bodies that establishes policies and guidelines with respect to asset and liability management, capital adequacy, liquidity risk, currency, interest and market risks. It also establishes limits for assets and liabilities structure and macroeconomic risk. The ALMC is responsible for monitoring and overseeing compliance with established asset and liability limits and approval of certain irregular transactions.

Investment Committee

The Investment Committee is responsible for assessment of risk management procedures in relation to the Bank's investment activities and ensuring that they are in line with the following principles: diversification of investment risk, profitability and expansion of the Group's business. The Investment Committee also ensures that the Bank is in compliance with the applicable statutory economic ratios for investment activities.

Credit Committee

The Bank's Credit Committee is responsible for supervising and managing the Bank's credit risk. The Credit Committee develops the Bank's credit policy, submits it to the Management Board for consideration which is then finally approved by the Supervisory Council. The Credit Committee establishes credit limits by branches and bank products and monitors the level of risk by respective business segment. It also participates in the decision-making process in relation to risk acceptance or risk avoidance with respect to transactions and operations in certain segments of the Bank's business and projects whose aggregate size exceeds the established limit for the respective branch.

Risk Management Department

The Risk Management Department exercises the Group-wide risk management function, including developing risk management strategy and other internal regulations on the risk management, identification, assessment and monitoring. It engages in development of internal policies and regulations in order to prevent potential risks and conflicts of interest in the Bank's day-to-day operations. The Risk Management Department determines the risk appetite, establishes risk limits on key indicators and parameters and performs stress testing of liquidity, capital adequacy and financial stability of the Bank. The Risk Management Department ensures independent assessment and monitoring of the risks to which the Bank's business segments are exposed. It also provides timely and accurate information in relation to risk management to the Management Board and other collegiate management bodies.

Internal Control Department

The Internal Control Department is responsible for maintaining and enhancing the Bank's internal control system. It identifies problems with internal control procedures and assesses efficiency of internal control procedures and processes. The Internal Control Department is responsible for conducting identification procedures in relation to the Bank's clients, including verification and updating of the information on the clients and their beneficial owners. The Internal Control Department reports to the authorised agency information on detected suspicious transactions. The Internal Control Department also is entitled to suspend certain transactions and freeze funds. It also is responsible for compliance with the applicable AML legislation.

IT and Banking Security Department

The IT and Banking Security Department is responsible for management of IT risks. It ensures forecasting, identification and elimination of security threats in relation to the Bank's personnel and property. The IT and Banking Security Department oversees compliance with organisational and technical measures that ensure security of the bank secrecy and monitors security measures and access control procedures on the Bank's premises. The IT and Banking Security Department is also responsible for measures aimed at identification and elimination of illegal actions of the Bank's employees and clients that may result in employees injuries or damages to the Bank's premises

Internal Audit Department

The Internal Audit Department is responsible for assessment of efficiency of risk management system and procedures, accounting and internal control systems and risk assessment methodology. The Internal Audit Department oversees the preparation of financial statements and internal bookkeeping. It examines the Bank's compliance with applicable laws and regulations, CBU regulations, internal policies and other internal documents of the Bank. The Internal Audit Department presents to the Supervisory Council, the Audit Committee and the Management Board performance reports that include information on key risks, defects, results and effectiveness of the measures taken to eliminate identified defects, results of internal audit performance, results of assessment of actual status, reliability and efficiency of the risk management system, internal control and corporate management.

Risk measurement and reporting

The Bank measures risk using a method which is based on scenario analysis, value at risk, scoring and expert estimation methods and stress testing. For each type of risk the Bank identifies factors (both internal and external) that affect formation of risks as well as severity of consequences grading them by catastrophic, critical, significant, moderate and insignificant. Taking these factors into consideration, the Bank prepares a risk matrix visualising risk impact and probability.

The risk management report is prepared by the Risk Management Department on a quarterly basis and submitted for review to the Supervisory Council, the Management Board and the Banking Risk Committee. The report includes information on main risks and their structure, capital adequacy and structure, analysis of the capital demand (current and future), Bank's liquidity position, analysis of the assets and liabilities nominated in foreign currencies, stress testing results, compliance with agreed risk appetite and prudential requirements.

The Bank's current scoring system for corporate loans is operated in manual mode and the Bank is planning to introduce an automated scoring system in the near future. The Bank currently uses credit scoring system that is based on economic and financial indicators of corporate borrowers. In addition, the Bank, together with KPMG, has developed a credit scoring system based on quantitative and qualitative data of corporate borrowers, which is currently being used in a test mode. The Bank has also developed a behavioral credit scoring model for assessment of the retail borrowers. This model is expected to be rolled out over the short-term period. Following these developments, there will be two separate scoring systems for corporate and retail loans. In addition, the Bank is developing an internal borrower rating system based on the probability of default criteria.

Following the outbreak of COVID-19, the Bank included additional indicators in its scoring process, including those designed to assess the probability of a material adverse effect of lockdown measures and other COVID-19 restrictions on the borrowers, their creditworthiness, revenue or disposable income, employment and business operations.

Risk management process

Four steps for risk management include identification of a risk, assessment of the identified risk and potential threats and consequences, risk mitigation and regular monitoring. As required by the CBU regulations, Basel regulations and best practices, the Bank develops policies and procedures for identification, assessment and reporting in relation to each material risk.

Risk Identification and Assessment

Risk identification and assessment aim at presenting a general view on existing risks and their size by basic ranking allowing to identify the weak spots in the Bank’s operations. This process helps to evaluate the methods and procedures used for risk management at the Bank. While identifying and assessing the risks the Bank uses internal risk classification systems based on analysis of the types of risks relevant to the Bank. The Bank also determines key risk identifiers and key control indicators that are used for risk identification and assessment and decision-making process.

Risk identification is typically managed through at least one of the following methods: risk matrix, questionnaires, empirical analysis (based on factual historical data) and early warning system.

Risk assessment and assessment of potential threats and consequences is performed through at least one of the following approaches depending on risk type and class of importance:

- value at risk;
- loan portfolio at risk;
- default identification;
- stress-testing;
- management of the risk appetite;
- management of economic capital;
- GAP analysis.

Based on results of the risk identification and assessment the Risk Management Department prepare a report with a detail description of the methods applied to risk identification and assessment and proposed methods and instruments for risk mitigation. The report is passed over to the Banking Risk Committee for review and further decision-making.

In 2020, the Group introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, the Group has revised indicators of significant increase in credit risk to reflect that the credit risk should not automatically be considered as having significantly increased where the modifications to the terms of the loan are made pursuant to support measures introduced by the Uzbek Government. The Group also updated forward looking information, including the forecasts of macroeconomic indicators and risk weighting models

Risk Mitigation

The Bank's uses the following risk mitigation methods:

- *Risk mitigation and control*: preventive control and an action plan in case the risk materialises, including decrease of the risk probability and change in risk triggers or risk consequences in order to reduce potential losses. Risk mitigation and control include the following instruments:
  - monitoring;
  - establishing limits;
  - diversification, which is a structural risk management tool that reduces the risk by allocating the overall risk among various risk bases to prevent risk concentration on specific asset or client.
- *Risk retention/acceptance*: creating reserves by the Bank, in case the risk materialises. The reserves are made to prevent debt losses in case of the client's bankruptcy.
- *Risk financing*: assignment of the potential losses from the risks to the clients or partners through product prices or transaction costs.
- *Hedging*: a strategy used to prevent potential losses from unfavourable market prices. Hedging instruments (forwards, futures, options, swap contracts) are usually used to manage the market risk.
- *Insurance*: transfer of the risk (partially or in full) to an insurance company in return for a payment.
- *Risk avoidance*: deciding against continuing or taking an action that triggers the risk.
- *Quality requirements*: establishing requirements for those risk bases that are dependent on quality of applied technology or procedures (e.g. reputational risk, strategic risk, etc.).

Monitoring

Based on decision of the Banking Risk Committee the Risk Management Department monitors the risk trends. In case there is a trend toward increase of the risk level or the risk level remains at the same level the Risk Management Department performs a repeated risk assessment and reports the results to the Banking Risk Committee.

Credit risk

Credit risk is the risk that a borrower or counterparty will be unable to pay amounts in full or in part when due. Credit risk arises mainly in the context of the Bank's lending activities and other transactions with counterparties giving rise to financial assets. Exposure to credit risk is managed, in particular, through implementation of loan approval procedures and collateral. The Bank uses the following instruments to manage the credit risk:

- risk mitigation method based on calculating and establishing the risk limits, including single borrower limits, group of related borrowers limits, limits on credit products, type of collateral, limits in relation to partner / issuer and other limits;
- loan portfolio diversification by industries, credit type and credit source, collateral, type of property, location;

- creating sufficient level of provisions for potential losses; and
- hedging against credit risk.

In addition, the Group is engaged in developing in cooperation with Halkbank a system that is aimed at furnishing of information about the financial condition of a potential borrower and assessing accuracy of the information provided by such borrower.

Loan approval procedures

The loan approval decisions are made by the Bank's credit committees and underwriters. The limits for interbank loans are established by ALMC (provided that where settlement limit is exceeded limits are set together with the Banking Risk Committee) after reviewing reports from the Project Finance Centre and the Risk Management Department. The Bank may create small credit committees for approval of certain types of loans (consumer, mortgage loans, microloan, other loans).

Decisions on entering into loan agreement with a single borrower or a group of related borrowers are made by:

- underwriters within established limits;
- small credit committee for the loan size up to U.S.$3 million or its equivalent in other currencies;
- the Credit Committee for the loan size exceeding U.S.$3 million or its equivalent in other currencies but less than 10 per cent. of the Bank's tier I capital.

In case the transaction size is 10 per cent. or more of the Bank's tier I capital, such transaction is subject to approval by the following Bank's collegiate bodies:

- The Management Board – entering into/amending major loan transactions of a single borrower or a group of related borrowers with the loan size (including all existing obligations) up to 15 per cent. of the Bank's net assets as at the date of such decision;
- The Supervisory Council – entering into/amending major loan transactions of a single borrower or a group of related borrowers with the loan size (including all existing obligations) exceeding 15 per cent. but less than 50 per cent. of the Bank's net assets as at the date of such decision, as well as transactions with related parties regardless of the loan size; and
- The General Shareholders Meeting - entering into/amending major loan transactions of a single borrower or a group of related borrowers with the loan size exceeding 50 per cent. of the Bank's net assets as at the date of such decision, as well as transactions with related parties and affiliates regardless of the loan size if approval of such transactions by a general shareholders meeting is required as a matter of law.

The respective credit committees hold the meeting on an as-needed basis but at least once a month.

To prevent risk concentration, the Bank has established the following limits:

- maximum risk exposure for a single borrower or a group of related borrowers (including loans, guarantees not covered by cash and suretyships, installment letter of credit, factoring and leasing, off-balance obligations and accrued interest) shall not exceed 25 per cent. of the Bank's tier I capital on the date the loan is granted. Such limits are not applicable to the loans secured by:
    - state securities, guarantees or other obligations of the Uzbek government (in case their market value is not less than 125 per cent. of the loan size);

- deposits accounting to 125 per cent. of the loan remaining amount, placed at the Bank on special accounts with a provision in a loan or other agreement stating that such deposit secures payment obligations under the loan;
- loans refinanced by the funds from the UFRD.

- maximum risk exposure for a single borrower or a group of related borrowers for unsecured credit and factoring services shall not exceed 5 per cent. of the Bank's tier I capital;
- the aggregate amount of the loans granted to all related parties shall not exceed 100 per cent. of the Bank's tier I capital;
- the aggregate amount of major loans where each such loan exceeds 10 per cent. of the Bank's tier I capital shall not exceed the Bank's tier I capital by more than 8 times.

The Bank established the following limits for concentration by industry:

Type of business activity	Maximum exposure in loan portfolio
Manufacturing	40%
Transportation	30%
Other	30%

The Bank also cooperates with the Credit Bureau to grant access to information on borrower's credit transactions and credit record. The Bank has a right to decline loan granting if the borrower does not provide required documents and consents for access to respective credit records.

Collateral

The Bank procures collateral to reduce credit risk. The Bank accepts the following types of collateral:

- guarantee and suretyship of the Uzbekistan government, local authorities in relation to loans for housing cooperations, banks or insurance companies that have an investment rating (or higher) granted by international rating agency;
- pledge of property and proprietary rights;
- account pledge;
- suretyships from third parties with acceptable creditworthiness and financial standing for the full loan period. In this case the total liability under the suretyship provided by a legal person shall not exceed 80 per cent. of the current assets of such legal person;
- default insurance issued by the duly licensed insurance companies of the Republic of Uzbekistan;
- other collateral, not prohibited by the laws of the Republic of Uzbekistan.

The Bank's credit policy establishes limits in relation to the following types of collateral for borrowers that are legal entities or individual entrepreneurs:

- suretyships from third parties;
- pledge over goods in turnover;
- default insurance;
- pledge of participatory interests, shares, bonds.

Suretyships from third parties and default insurance may be accepted as collateral provided that they cover 50 per cent. or less of the required size of collateral with the remainder being covered by other securities. This restriction does not apply to loans to JSC "Uzbekiston temir yullari", Uzbekistan Airways and Uzbekneftegaz.

Suretyships from elegible funds are accepted as collateral provided that they cover 50 per cent. or less of the required size of collateral with the remainder being covered by other securities.

Pledge over goods in turnover is accepted as collateral for loans for inventories provided that it covers 50 per cent. (70 per cent. for borrowers with favourable credit record) or less of the required size of collateral with the remainder being covered by other securities.

Suretyships from individuals with verified creditworthiness and financial standing are accepted as primary or partial collateral for loans granted on the basis on statutory regulations, if this type of collateral is specified in such regulation.

The Bank does not accept the following as collateral:

- suretyships from budgetary or non-state non-profit organisations;
- suretyships from financially unstable legal entities; suretyships from individuals and legal entities that do not have liquid assets sufficient to repay the loan and interest or that pledged such liquid assets or that do not comply with the requirements applicable to borrowers, including those individuals or entities that have illiquid balance or loss-making business;
- illiquid property, property susceptible to damage, fast deprecation or other negative factors;
- property that is not subject to denationalisaton, privatisation or repurchase as specified in applicable legislation;
- liabilities that are intimately connected with the personality of the pledgee (alimony payments, compensation for damages caused to life or health, other claims which assignment to another person is prohibited by law);
- property of individuals that cannot be seized according to applicable legislation (the only housing (except for mortgage loans), household items, etc.);
- movable and immovable property that has a limited demand or market for sale in respective region or which evaluation price is higher than the price of similar property in such region;
- property of legal entities that hold only a right to operational management of such property;
- special and agricultural equipment, that was not duly registered; and
- shares and participatory interests in legal entities that do not comply with requirements set out in Law of the Republic of Uzbekistan on Banks and Banking Activities.

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies to off-balance sheet risks as it does to its on-balance sheet risks. The off-balance sheet risk is primarily monitored by the Credit Risk Department of the Risk Management Department.

Market risk

The market risk includes stock market, currency and interest risks. Stock market risk is a risk of financial losses from unfavourable changes in market price of the instruments in securities portfolio. Currency risk is a risk of financial losses from fluctuations of foreign currencies and prices of precious metals. Interest risk is a risk of financial losses from unfavourable change in interest rates on assets, liabilities and other contingencies. The currency risk also includes risk of change in the value of assets and liabilities as a result of imbalances in the amount of assets and liabilities with a floating interest rate and as a result of fixed interest rate maturity gap.

Liquidity risk

The Bank’s liquidity risk mainly arises as a result of a mismatch between the maturities of the Bank's assets and liabilities. The liquidity risk is controlled and monitored on a daily basis by the Liquidity Management Department of the Treasury Department. The share of liquid assets is maintained at a level sufficient to satisfy obligations to customers and fulfill the requirements established by the CBU. The Bank carries out GAP analysis of liquidity and takes measures to resolve the maturity of assets and liabilities in order to ensure financing of assets with liabilities with appropriate maturities. The Risk Management Department carries out stress testing of liquidity positions of the Bank on a monthly basis based on cash-flow based stress-test model using pessimistic assumptions.

To assess the impact of the global crisis associated with the COVID-19 pandemic the Bank regularly conducts stress testing of liquidity indicators based on balance indicators. Based on the latest scenarios, the Bank expects the extension of loans, the growth of off-balance sheet activity (for unconditional obligations to issue loans), the outflow of deposits, the payment of letters of credit without coverage and payment of guarantees. According to the degree of potential "stress" consequences the Bank modeled 3 types of scenarios: 1 - moderate, 2 - negative and 3 - crisis.

The Bank is currently developing efficient liquidity risk management system that is expected to include:

- liquidity risk limits;
- liquidity risk management policy;
- liquidity risk monitoring and assessment;
- control tools in respect to liquidity risk;
- day-to-day liquidity risk management;
- intragroup liquidity management;
- crisis financing plan;
- liquidity risk stress-testing; and
- liquidity risk reporting.

The Bank believes that the Group's liquidity is sufficient to meet each of its present requirements. For information on the Group's liquid assets, liabilities and maturity profile of the Group's financial liabilities as well as further information on the liquidity risk of the Group see Note 28 to the Annual Financial Statements.

Operational risk

Operational risks management is based on identification of all operational risks, their assessment, risks mitigation actions, establishment risk limits and subsequent monitoring.

Risk identification is carried out through the evaluation of business processes, risk self-assessment by the respective Bank's departments, analysis of the historical data and triggering of signal indicators of operational risks. The classification of operational risks is carried out by business segments with a distribution by business processes. The Bank assesses the operational risks by scenario and expert methods. The assessment of operational risks is performed on a regular basis. The Bank pays particular attention to the following risks: technological risks, personnel risks, process risks and IT security risks. Based on the assessment of operational risks, the Bank prepares a risk matrix, which helps identifying critical and significant risks that are subject to mitigation and control as a matter of priority. The Bank establishes limits for operational risks based on the overall risk limits and monitors the risks level for each business process. The Bank also carries out subsequent monitoring on the residual and inherent operational risks in order to control and minimise respective risks. The Group also monitors any systemic failures that are communicated to the Group's management if they exceed certain limits. The Group also runs a regular assessment of control procedures employed in its IT systems. To ensure efficiency of identification and elimination of transactions entailing AML risks, compliance with applicable AML regulations and to minimise human errors, the Group is currently implementing automated system that will identify suspicious transactions.

MANAGEMENT

Overview

The governance of the Bank consists of various levels and sub-levels, each responsible for different aspects of the Bank's overall activities. The following section sets out the management structure of the Bank and its corporate governance reporting lines.

The supreme governing body is the General Shareholders' Meeting. At the General Shareholders' Meeting, the shareholders elect the Supervisory Council, which is responsible for the general governance of the Bank, including the determination of strategy, coordination and general supervision thereof. The Supervisory Council elects the Management Board, which is the collegiate executive body of the Bank, and appoints the Chairman of the Management Board. The Chairman of the Management Board and the Management Board as a whole are responsible for the day-to-day operations of the Bank.

General Shareholders' Meeting

The General Shareholders' Meeting is held in the form of an annual General Shareholders' Meeting and extraordinary General Shareholders' Meeting. The annual General Shareholders' Meeting is convened no later than six months after the end of the Bank's reporting year.

The powers of the General Shareholders' Meeting are set forth in the Bank's Regulations on Shareholders' Meetings and the Bank's Charter. The procedure for convening, preparing for and conducting the General Shareholders' Meeting is stipulated in the Bank's Regulation on the General Shareholders' Meeting.

Shareholders have the power to decide on the following matters, among others:

- amendment of the Bank's charter or the approval of the restated charter (with exceptions regarding the amendments connected with the increase of the charter capital);

- reorganisation of the Bank;

- liquidation of the Bank, appointment of a liquidator (liquidation committee) and approval of interim and final liquidation balance sheets;

- determination of the composition of the Supervisory Council, election of its members and early termination of their powers, payment of remuneration and compensations to the Supervisory Council's members;

- determination of the maximum number of the authorised shares;

- decrease of the Bank's charter capital;

- decision on the purchase by the Bank of its own shares;

- determination of the Bank's organisational structure;

- election of the Revision Commission's members and an early termination of their powers, as well as adoption of the Regulation on the Revision Commission;

- approval of the Bank's medium and long-term strategy;

- distribution of the Bank's profit and losses;

- considering the report of the Supervisory Council and opinion of the Revision Commission on matters falling within their responsibilities, including the Bank's compliance with the corporate governance requirements;

- decision on the non-application of pre-emptive rights;

- adoption of Regulation on the General Shareholders' Meeting;

- decision on consolidation or split of the shares;

- approval of major transactions and transactions with the Bank's affiliated persons (with related persons);

- decision on the payment of dividends, determination of the amount, procedure and form of payment in accordance with the recommendation of the Supervisory Council;

- election of the Bank's external auditor for conducting the mandatory audit of the Bank, determination of the amount payable for its services, and decision on entering into (or terminating) an agreement with such external auditor; and

- decision on such other matters provided for by the law, Bank's charter and Bank's other internal documents.

Decisions of the General Shareholders' Meeting are generally adopted by a simple majority of voting shareholders who are present at the meeting, unless the Regulations on the General Shareholders' Meeting of the Bank and Bank's Charter require a qualified majority or set additional rules. Pursuant to the Regulations on the General Shareholders' Meeting of the Bank and the Bank's Charter, motions such as amendment of the Charter (approval of the restated charter), determination of the maximum number of the announced shares, reorganisation, liquidation, approval of major transactions or transactions with related parties must be approved by a three quarters majority vote of the voting shares participating in the General Shareholders' Meeting of the Bank. All decisions of the General Shareholders' Meeting are adopted subject to satisfaction of a quorum of at least 50 per cent. plus one share of voting shareholders.

Supervisory Council

The Supervisory Council is responsible for general governance matters, with the exception of those matters that are designated by law and by the Bank's Charter as belonging to the exclusive competence of the General Shareholders' Meeting. The Supervisory Council makes its decisions by clear majority, so long as a quorum of at least 75 per cent. of the elected members of the Supervisory Council is present, unless otherwise required by law or the Bank's Charter. The Supervisory Council meets on a regular basis – in-person meetings are typically held quarterly, whereas meetings in absentia are held at least once a month. The Bank's shareholders elect members of the Supervisory Council until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. There is no fixed term of office for Supervisory Council members. The Supervisory Council currently has five members. The most recent election of the Supervisory Council took place on 11 July 2020.

Name	Year of Appointment to the Supervisory Council	Position
Nasritdinxodjaev Omonullo Zabixullaevich	2020	Chairman of the Supervisory Council
Norgitov Muxitdin Juraboevich	2020	Member of the Supervisory Council
Mirzaev Mubin Muxidinovich	2020	Member of the Supervisory Council
Rustamov Olimxon Boqievich	2020	Member of the Supervisory Council
Muslimov Elbek Shukhratovich	2020	Member of the Supervisory Council, Independent Director

Nasritdinxodjaev Omonullo Zabixullaevich (born 4 October 1971) First Deputy Minister of Finance of the Republic of Uzbekistan. Mr. Nasritdinxodjaev graduated from the Tashkent State University in 1994, SDA Bocconi Business School (Italy) in 2002 and Harvard Business School (USA) in 2016. Mr. Nasritdinxodjaev began his career in 1994 as an intern in the World Bank's office in Tashkent. From 1995 to 2000, he worked as the Deputy Head and the Head of the representative office of Credit Suisse in Tashkent. From 2004 to 2005, he was the Head of the Department of State Management Programs of UNDP's project in Uzbekistan. From 2005 to 2007, he worked as the Deputy Director and expert on economic issues of the International Financial Corporation's project on the Development of Mortgage in Uzbekistan. From 2007 to 2009, he was the Financial and Economical Director of the limited liability company "South Ural Mining and Processing Company" in Moscow. From 2009 to 2011, he was the Director on Economic Issues of the open joint-stock holding company "Metalloinvest" in Moscow. From 2011 to 2013, he was the Director on Strategy and Investment of the company "Baikal Mining Company" in Moscow. From 2013 to 2014, he held the position of the First Deputy of the General Director of the company "Baikal Mining Company" in Moscow. From 2014 to 2016, he was the General Director of the company "Baikal Mining Company" in Moscow. From 2016 to 2019, he was the Deputy General Director of the open joint-stock company "Baikal Mining Company" in Moscow. From 2019 to 2020, he was the Counsel of the President of the Republic of Uzbekistan on the Development of the Economy Sectors, Realization of the Investment and Foreign Trade Policy. On 24 February 2020, he was appointed as the First Deputy Minister of Finance of the Republic of Uzbekistan.

Norgitov Muxitdin Juraboevich (born 7 January 1963) Head of the Legal Department of the Fund for Reconstruction and Development of the Republic of Uzbekistan. Mr. Norgitov received a bachelor's degree at the Tashkent Automobile Road Institute in 1988 and at Tashkent State Law Institute in 2002. Mr. Norgitov began his career in 1984 as a metal worker and electric welder at Tashkent Tractor Plant. From 1988 to 1996, he worked in various positions in production cooperative "Toshavtotexxizmat". From 1996 to 1999, he worked as a metal worker, head of the Human Resources department at "Sanjarbek" private firm. From 1999 to 2007, he worked as a senior consultant, chief consultant, Head of the Division, Head of the Department at the Ministry of Justice of the Republic of Uzbekistan. From 2007 to 2008, Mr. Norgitov acted as the Head of the Department on the Administrative and Social Legislation at the Ministry of Justice of the Republic of Uzbekistan. Prior joining the Fund for Reconstruction and Development of the Republic of Uzbekistan, from 2008 to 2013, he served as the Head of the International Legal Department of the Ministry of Justice of the Republic of Uzbekistan.

Mirzaev Mubin Muxidinovich (born 20 January 1969) First Deputy of the Chairman of the Tax Committee of the Republic of Uzbekistan. Mr. Mirzaev received a bachelor's degree at the Tashkent State University in 1993 and at Tashkent State University of Finance in 2001. Mr. Mirzaev received his master's degree at the Japan National Institute of Political Science in 2002. Mr. Mirzaev began his career in 1993 as a research intern at Tashkent State University. From 1996 to 2008, he held various positions at the CBU, including the Head of the Monetary-Credit Policy Department and the Head of the Monetary Policy and Economic Analysis Department. From 2008 to 2017, he was the Deputy Minister of Finance of the Republic of Uzbekistan. Prior to joining the Tax Committee of the Republic of Uzbekistan as the Deputy Chairman in 2018, from 2017 to 2018, Mr. Mirzaev served as the Deputy Minister of Economics of the Republic of Uzbekistan on the Microeconomic Policy, the Development of Basic Networks and Cooperation with International Financial Institutions. In 2019, he worked as Acting Head of the Interregional State Inspection on the Major Taxpayers. In 2020, he was appointed as the First Deputy Chairman of the State Tax Committee of the Republic of Uzbekistan.

Rustamov Olimxon Boqievich (born 23 July 1966) First Deputy Minister of Economics and Industry of the Republic of Uzbekistan. Mr. Rustamov received his bachelor's degree from the Tashkent State Institute of National Economy in 1989. He also graduated from the Academy on the State and Social Construction under the President of the Republic of Uzbekistan in 1996. Mr. Rustamov began his career in 1989 as an assistant of the Faculty on Accounting, Supervision of the Social Sector and Analysis of the Economic Activity of the Tashkent State Institute of National Economy. From 1995 to 1996, he was the Department Head and then the Manager of the Department on Financial Risk Insurance of the National Insurance Company "Uzbekinvest". From 1996 to 1998, he was the Head of the Commercial

Banks' Audit Coordination Department of the CBU. From 1998 to 2002, he served as the Chairman of the Management Board of the Open Joint-Stock Company "Turkiston". From 2002 to 2014, he worked as the leading inspector and then as the Chief Inspector of the Audit Chamber of the Republic of Uzbekistan. From 2014 to 2016, he was the Deputy CEO of the State Enterprise "Navoiy kon-metallurgiya kombinati". From 2016 to 2017, he was the Deputy Chairman of the Management Board on Economics and Finance at JSC "Uzbekneftegaz". Prior to joining the Ministry of Economics and Industry of the Republic of Uzbekistan as the First Deputy Minister, from 2017 to 2019, Mr. Rustamov worked as the Deputy Chairman of the Auditing Chamber of the Republic of Uzbekistan – Head of the Inspection Department on Sufficiency of the Funds Payable to the State Budget.

Muslimov Elbek Shukhratovich (born 9 October 1976) Founder and Director at Old Street Advisory Limited and CEO at FPP Asset Management. Mr. Muslimov received a bachelor's degree at the American University in Central Asia (Kyrgyzstan) in 1997 and his master's degree at the Yale School of Management (USA) in 2001. Mr. Muslimov began his career in 1994 as a translator at International Red Cross and Red Crescent Movement. From 1997 to 1998, he worked as the accountant ad the consultant at International Business and Technical Consultants, Inc (Bishkek, Kyrgyzstan). From 1998 to 1999, he worked as the Head of the Department on Internal Control, Currency Control at Citibank (Almaty, Kazakhstan). In 2000, he attended the summer program, and worked as the specialist at the Department on Capital Management at Goldman, Sachs & Co. (New York, USA). From 2001 to 2004, he worked as the junior specialist at Deutsche Bank AG (London, Great Britain). From 2004 to 2018, he worked as the Managing Director, Head of the Department on the Credit Operations on Developing Markets (CEEMEA) at Citigroup (London). From 2018 to 2019, he worked as the Managing Director, Head of Local Interest Rates Trading – CEEMEA at Citigroup (London). Since 2019 he is the Founder and Director at Old Street Advisory Limited, and starting from 2020, he is also the CEO at FPP Asset Management.

The business address of each member of the Supervisory Council is the Bank's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Council owes to the Bank and such member's private interests or other duties.

Management Board

The Management Board is the Bank's collegial executive body, which is elected by the Supervisory Council. The Management Board meets as often as is considered necessary, typically twice a week, and makes its decisions by simple majority, provided that a quorum of at least two third of the members of the Management Board is present. The Chairman of the Management Board has a casting vote if the number of votes are equal. The Management Board is responsible for the Bank's day-to-day management and administration. The Chairman of the Management Board represents the Bank and acts as its Chief Executive Officer. The Management Board has several committees that help it to carry out its management functions.

The Bank's Management Board consists of 11 members. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions. There are no fixed terms of office for Management Board members.

Name	Year of Appointment to the Management Board	Position
Mirsoatov Alisher Kudratullaevich	2017	Chairman
Jalilov Bahodir Amiralievich	2017	Deputy Chairman
Kurambaev Azamat Karimbaevich	2018	Deputy Chairman
Muxamedxanov Abror Shuxratovich	2018	Deputy Chairman
Tulyaganov Qudratilla Asatullaevich	2020	Deputy Chairman
Khodjaev Azizbek Shavkatovich	2020	Deputy Chairman
Izamova Gulnara Ahmedovna	2020	Action Director of the Centre on Project Financing

Nazarov Hurshid Abdimuradovich...	2019	Director of the Department on working with Nonperforming Loans
Imomov Bobir Burxanovich	2018	Chief Accountant – Head of Accounting Department
Mirdovidov Baxtiyor Kobilovich...	2019	Director of Credit Department
Alimov Bahodir Muradjanovich	2020	Adviser of the Chairman – Director of Bank's Strategic Development Department

Mirsoatov Alisher Kudratullaevich (born 20 September 1974). Mr. Mirsoatov graduated from the Tashkent State Technical University in 1996, from the Business School under the Academy of the State Management under the President of the Republic of Uzbekistan in 2003, and Maastricht School of Management in 2004. Mr. Mirsoatov began his career in 1996 as a second category specialist at the Bank's Division on Conversion of Foreign Currency for Contracts on the Import of Technologies, Machinery, and Equipment under the Currency and Economy Department. From 1998 to 1999, he held various positions at the Bank. From 1999 to 2000, he worked as the Deputy Head of the Division on Patented Conversion under the Currency and Economy Department of the Bank. In 2000, he was the Deputy Head of the Bank's Division on Licensed Conversion under the Head-Department on Currency and Economy. From 2000 to 2002, he worked as the Head of the Bank's Division on Licensed Conversion under the Head-Department on Currency and Economy. In 2002, he was the First Deputy Head of the Head-Department on Currency and Economy of the Bank. From 2002 to 2003, he worked as the Acting Head of the Head-Department on Currency and Economy of the Bank. In 2003, he was appointed as the Deputy Head of the Head-Department on Currency and Economy of the Bank. In 2003, he also worked in the Bank as the Deputy Head of the Head-Department on Coordination of Work with Corporate Clients, and Head of the Department on Working with Corporate Clients. From 2003 to 2004, he was the Deputy Head of the Head-Department on Coordination of Work with Corporate Clients of the Bank. From 2004 to 2005, he was the Deputy Director of the Centre on Management of the Divisions in the Bank, and the Head of the Department on Monitoring and Statistics of Utilizing Target Funds. From 2005 to 2006, he worked as the Acting Director of the Centre on Management of the Divisions in the Bank. From 2006 to 2009, he was the Director of the Centre on Management of the Divisions in the Bank. From 2009 to 2016, he was the Deputy Chairman of the Management Board of the Bank. From 2016 to 2017, he worked as the Chairman of the Management Board of JSCB Uzbek Industrial and Construction Bank. In November 2017, he was appointed as the Chairman of the Management Board of the Bank.

Jalilov Bahodir Amiralievich (born 22 March 1977). Mr. Jalilov graduated from Termez State University with a bachelor's degree in 2003 and from the Banking-Financial Academy of the Republic of Uzbekistan with a master's degree in 2006. Mr. Jalilov began his career in 1992 as a packer at the Central Pharmacy No.7 of Sariosiyo district. From 1993 to 1996, he worked as an inspector of Xalq Bank No. 3613 of Uzun district, Surxondaryo Region. From 1996 to 2001, he was a specialist of a first category, treasurer of the Division at JSC Paxtabank located in Sariosiyo district. From 2001 to 2011, he held various positions at the Bank. From 2011 to 2012, he was the Head of the Division on Expertise of Projects of Small Business under the Department on Expertise of Projects of Small Business' under the Centre on Project Financing of the Bank. From 2012 to 2013, he worked as the Deputy Director of the Centre on Project Financing, as well as the Acting Head of the Department on Expertise and Monitoring of Projects of Small Business of the Bank. From 2013 to 2017, he worked as the Deputy Director of the Centre on Project Financing, and the Head of the Department on Expertise and Monitoring of Projects of Small Business. In 2017, he was the Deputy Director of the Centre on Projects of Small Business under the Centre on Project Financing. During the same year, he was the Director of the Department on Small Business. In August 2017, he was appointed as the Deputy Chairman of the Management Board of the Bank.

Kurambaev Azamat Karimbaevich (born 8 May 1976). In 1998, Mr. Kurambaev graduated from Tashkent Financial Institute. Mr. Kurambaev began his career in 1998 as a specialist at the Division on Collection of Balances and Analysis of Reports under the Head-Department on Accounting at the Specialised State Joint-Stock Asaka Bank. Until 2002, he held different positions at Specialised State Joint-Stock Asaka Bank. From 2002 to 2003, he was the Head of the Division on International Credit

Lines, Monitoring of Investment under the Credit Portfolio Department of State Joint-Stock Asaka Bank. From 2004 to 2006, he worked as the Manager of State Joint-Stock Asaka Bank's branch located in Jizzax Region. From 2006 to 2007, he was the Head of the Department on Working with Non-performing Loans at Republican Joint-Stock Bank "G'allabank". From 2007 to 2008, he worked as the Deputy Manager of the Bank's Uchtepa branch under Tashkent city Head-Office. In 2008, he was the Acting Manager of the Bank's Uchtepa branch under Tashkent city Head-Office. From 2008 to 2011, he worked as the Manager of the Bank's Uchtepa branch under Tashkent city Head-Office. From 2011 to 2015, he worked as the Deputy Director of the Bank's Tashkent city Head-Office. From 2015 to 2016, he worked as the First Deputy Director of the Bank's Department on Monitoring and Coordination of Investment Activity. From 2016 to 2017, he was the Director of the Bank's Department on Monitoring and Coordination of Investment Activity. From 2017 to 2018, he worked as the Director of the Bank's Investment Department. In 2018, he was the advisor of the Chairman of the Management Board of the Bank. In March 2018, he was appointed as the Deputy Chairman of the Management Board of the Bank.

Muxamedxanov Abror Shuxratovich (born 24 May 1983). Mr. Muxamedxanov graduated from the Tashkent Institute of Irrigation and Melioration with a bachelor's degree in 2005 and from the Tashkent State Economic University with a master's degree in 2007. Mr. Muxamedxanov began his career in 2000 as a technician at limited liability company "РС Сервис". From 2002 to 2006, he worked as an insurance agent at Uzbek-Swiss Joint-Venture "Universal Sug'urta". From 2006 to 2007, he held various positions at the Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2007 to 2008, he was the Head of the Department on Foreign Economic Operations at the Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2008 to 2009, he was the Deputy Manager of the Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2009 to 2011, he was the Deputy Director of the Front Office at Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2011 to 2012, he worked as the Deputy Head of the Division on Credit Risk Management under the Credit Department of the Bank. From 2012 to 2013, he was the Deputy Head of the Division on Approval, Supervision, and Monitoring Credits under the Credit Department of the Bank. From 2013 to 2016, he worked as the Deputy Head and Acting Head of the Division on Approval, Supervision, and Monitoring Credits under the Credit Department of the Bank. In 2016, he was the Head of the Division – Deputy Director of the Department at the Division on the Approval, Supervision, and Monitoring Credits under the Credit Department of the Bank. From 2016 to 2017, he was the Acting Director of the Internal Audit Department of the Bank. From 2017 to 2018, he worked as the Leading Inspector of the Audit Chamber of the Republic of Uzbekistan. In May 2018, he was appointed as the Deputy Chairman of the Management Board of the Bank.

Tulyaganov Qudratilla Asatullaevich (born 6 October 1982). Mr. Tulyaganov graduated from Tashkent Financial Institute with a bachelor's degree in 2008 and from the Banking-Financial Academy of the Republic of Uzbekistan with a master's degree in 2016. Mr. Tulyaganov began his career in 1999 as a courier of the Department No. 8297 of Xalq Bank located in A. Ikromov district. In 2000, he worked as the head of the Treasury of the Department No. 8297 of Xalq Bank located in A. Ikromov district. From 2001 to 2004, he held various positions at the Department No. 8297 of Xalq Bank located in A. Ikromov district. From 2004 to 2008, he worked in different positions in JSCB Uzbek Industrial and Construction Bank. From 2008 to 2009, he worked as the Head of the Division on Servicing Investment Projects under the Department of Foreign Economic Activity, Office on the Project and Trade Finance of JSCB Uzbek Industrial and Construction Bank. From 2009 to 2010, he was the Acting Head of the Division of the Office on Coordination and Monitoring Investment Activity, Project Finance Department, Division on Financing the Projects with the funds of the Fund for Reconstruction and Development of the Republic of Uzbekistan of JSCB Uzbek Industrial and Construction Bank. In 2010, he was the Head of the Division on Project Financing under the Office on Coordination and Monitoring Investment Activity of JSCB Uzbek Industrial and Construction Bank. From 2010 to 2012, he worked as the Deputy Head of the Department on Financing and Monitoring of the Basic Networks Financing under the Office on Coordination and Monitoring Investment Activity of JSCB Uzbek Industrial and Construction Bank. From 2012 to 2017, he worked as the Deputy Director of the Office on Coordination and Monitoring Investment Activity of JSCB Uzbek Industrial and Construction Bank. In 2017, before he started working as the Director of the Credit Department of the Bank, he was the Director of the Office on Coordination and Monitoring Investment Activity of JSCB Uzbek Industrial and Construction Bank. From 2017 to 2019, he worked as the Director of the Centre on Project Financing at the Bank. From 2019 to 2020, he was the Director of the Centre on Project Financing – Acting Director on the Crediting. In February 2020, he was appointed as the Deputy Chairman of the Management Board of the Bank.

Khodjaev Azizbek Shavkatovich (born 12 June 1978). Mr. Khodjaev received his bachelor's degree from Tashkent State Institute of Oriental Studies in 2001 and a master's degree from Higher School of Business under the Cabinet of Ministers of Uzbekistan in 2013. Mr. Khodjaev began his career in 2002 as the specialist at the Bank’s Division on Export-Import and Insurance Agencies under the Department on International Credits of the Centre on Project Financing and worked in various positions of the Bank until 2007. From 2007 to 2008, he was the Head of the Bank’s Division on Export-Import and Insurance Agencies under the Department on International Credits of the Centre on Project Financing. In 2008, he was the Deputy Head of the Bank’s Division on Export-Import and Insurance Agencies under the Department on International Credits of the Centre on Project Financing. From 2008 to 2009, he worked as the Deputy Head of the Bank’s Division on Attraction of Foreign Investment and Credits of the Department on Administration of Investment Projects. In 2009, he was the Head of the Department on Foreign Investments and Credits under the Bank’s Centre on Project Financing. From 2009 to 2012, he worked as the Acting Director of the Bank’s Department on Foreign Economic Activity. From 2012 to 2017, he was the Director of the Bank’s Department on Foreign Economic Activity. From 2017 to 2018, he worked as the Deputy Chairman of the Management Board of NBU Invest Group LLC. In 2018, he first was Acting Director, then Director of the Bank’s Department on Foreign Economic Activity. From 2018 to 2020, he worked as the Leading Inspector of the Audit Chamber of the Republic of Uzbekistan. In September 2020, he was appointed as the Deputy Chairman of the Management Board of the Bank.

Izamova Gulnara Ahmedovna (born 15 November 1963). In 1986, Ms. Izamova graduated from the Tashkent State Institute of National Economy. Ms. Izamova began her career in 1986 as an engineer of 14-Division, Republican General Information Computing Center at USSR "Davagrosanoat". In 1988, she worked as an engineer at "Uzagroinform" production union. From 1990 to 1996, she worked as an economist and the economist of a second category at USSR AS "Fizika-Quyosh" production union. In 1997, she started working at the Bank's Division on Tashkent Region as the specialist in the Division on Finance and Economics, and worked in different positions at the Bank until 2002. From 2002 to 2003, she was the Head of the Division on Microcredits under the Department on Credit Practice and Investment Management of the Bank's branch of Tashkent city Head-Office. From 2003 to 2005, she worked as the Deputy Manager of the Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2005 to 2006, she was the Deputy Manager of the Bank's Sergeli branch under Tashkent city Head-Office. From 2006 to 2015, she worked as the Deputy Director of the Central Operational Division under Tashkent city Head-Office. From 2015 to 2017, she was the Head of the Division on Complex of Investment Projects, and Expertise and Monitoring of Investment Projects in the Social Sphere under the Centre on Project Financing of the Bank. From 2017 to 2018, she was the Head of the Department on Expertise and Monitoring of Investment Projects under the Centre on Project Financing of the Bank. In 2018, she was the Head of the Department on Expertise of Investment Projects under the Centre on Project Financing of the Bank. From 2018 to 2019, she worked as the Director of the Human Resources Department. From 2019 to 2020, she was the Deputy Director, and the First Deputy Director of the Centre on Project Financing of the Bank. In February 2020, she was appointed as the Acting Director of the Centre on Project Financing of the Bank and a member of the Management Board.

Nazarov Hurshid Abdimuradovich (born 4 July 1982). In 2004, Mr. Nazarov graduated from Tashkent State Technical University named after Abu Rayhon Beruniy, and from Tashkent Financial University in 2009. Mr. Nazarov began his career in 2005 as the specialist of a second category at the Bank's Division on Automation and Computerisation under the Central Operational Division under Tashkent city Head-Office. From 2006 to 2010, he held various positions at the Bank. In 2010, he was the Head of the Sector on Credit-Deposit Operations under the Back Office's Division on Accounting Operations, the Central Operational Division under Tashkent city Head-Office of the Bank. From 2010 to 2012, he worked as a chief specialist at the Front Office's Division on Currency Operations under the Central Operational Division under Tashkent city Head-Office of the Bank. From 2012 to 2013, he was the Deputy Head of the Front Office's Division on Currency Operations under the Central Operational Division under Tashkent city Head-Office of the Bank. From 2013 to 2015, he was the Head of the Department on the Currency Operations of the Central Operational Division under Tashkent city Head-Office. In 2015, he worked as the Deputy Manager of the Bank's Mirzo-Ulugbek branch under Tashkent city Head-Office. From 2015 to 2016, he was the Head of the Division on Managing the Development and Monitoring the Execution of Regional Projects under Tashkent city Head-Office of the Bank. From 2016 to 2017, he worked as the Head of the Division on Managing and Monitoring of the Credit Portfolio under the Credit Department, Tashkent city Head-Office of the Bank. In 2017, he was the Head of the Division on Currency Operations of the Bank's Tashkent city Head-Office. From 2017 to 2018, he was the Deputy Head of the Department and Head of the Division on Management and Analysis of Credit Portfolio under the Credit Department of the Bank's Tashkent city Head-Office. In 2018, he was the Deputy Manager – leader of the Group at the Bank's Corporate Service Group of the Front Office of Yunusobod branch under Tashkent city Head-Office. In 2018, he also was the Deputy Manager – leader of the Group of the Bank's Retail Service Provision Group of the Front Office of Yunusobod Branch under the Central Operational Division under Tashkent city Head-Office. From 2018 to 2019, he was the Director of the Bank's Department on Monitoring Problem Assets. In April 2019, he was appointed as the Director of the Department on Working with Non-performing Loans of the Bank, and a member of the Management Board.

Imomov Bobir Burxanovich (born 5 July 1980). In 2002, Mr. Imomov graduated from Tashkent Financial Institute, and the Banking-Financial Academy of the Republic of Uzbekistan in 2013. Mr. Imomov began his career in 2003 as a specialist of a first category at Bank's Division on Analysis of the Activity of Business Entities under the Central Operational Division. From 2004 to 2009, he held various positions at the Bank. From 2009 to 2012, he was the Head of the Division on Organisation and Supervision of the Accounting Operations of the Department on Formation of Policy in Accounting and Bank Procedures under the Department of Accounting and Reporting of the Bank. From 2013 to 2017, he was the Head of the Department and Deputy Chief Accountant at the Bank's Department on Formation of Policy in Accounting and Bank Procedures under the Department of Accounting and Reporting. In 2017, he was the Head of the Department and Deputy Chief Accountant at the Bank's Department on Formation of Policy in Accounting and Bank Procedures under the Department of Accounting, Reporting, and Economic Analysis. From 2017 to 2018, he worked as the Deputy Chief Accountant at the Bank's Department of Accounting, Reporting, and Economic Analysis. In November 2018, he was appointed as the Bank's Chief Accountant – Head of the Bank's Department of Accounting, Reporting, and Economic Analysis.

Mirdovidov Baxtiyor Kobilovich (born 4 December 1985). Mr. Mirdovidov received his bachelor's degree in 2012 and master's degree in 2014 from Tashkent State Economic University. Mr. Mirdovidov began his career in 2007 as transport coordinator of the Division the Delivery of Goods at limited liability company "Nestle Uzbekistan". From 2007 to 2008, he held different positions in limited liability company "Deloitte and Touche". In 2009, he started working at the Bank as a specialist of a second category at the Division on Servicing Currency Exchange Offices under the Operational Division of Tashkent city Head-Office. Until 2014, he held various positions at the Bank. From 2014 to 2015, he was the Head of the Division on Cash Flow and Cash Operations of the Front Office under the Operational Division of Tashkent city Head-Office of the Bank. From 2015 to 2016, he worked as the Head of the Division on Servicing Corporate Clients of the Front Office under the Operational Division of Tashkent city Head-Office of the Bank. From 2016 to 2017, he was the Head of the Division on Servicing Legal Entities of the Front Office under the Operational Division of Tashkent city Head-Office of the Bank. In 2017, he was the Deputy Manager – Head of the Bank's Retail Service Provision Group of the Front Office under the Operational Division of Tashkent city Head-Office. From 2017 to 2018, he was the Deputy Manager – Head of Retail Service Provision Group of the Front Office of Sergeli branch under Tashkent city Head-Office of the Bank. From 2018 to 2019, he was the Administrative Manager of Yunusobod Branch under Tashkent city Head-Office of the Bank. In

February 2019, he was appointed as the Bank's Director of Credit Department and a member of the Management Board.

Alimov Bahodir Muradjanovich (born 24 May 1984). In 2005, Mr. Alimov graduated from Tashkent Institute of Architecture and Construction, and Tashkent State Economic University in 2007. Mr. Alimov began his career in 2002 as an operator of the Division on Automation of the Banking Activity of the Department on Information and Technology at Joint-stock exchange bank "Trustbank". He started working at the Bank in 2008, as a specialist of a second category at the Division on Cash Flow and Cash Operations of the Front Office under the Central Operational Division under Tashkent city Head-Office, and held various positions at the Bank until 2011. From 2011 to 2013, he worked as the Head of the Division on Cash Flow and Cash Operations of the Front Office under the Central Operational Division under Tashkent city Head-Office of the Bank. From 2013 to 2015, he was the Deputy Head of the Central Operational Division under Tashkent city Head-Office of the Bank. From 2015 to 2017, he worked as the Manager of Yangiobod branch under Tashkent city Head-Office of the Bank. In 2017, he worked as the Deputy Head of the Tashkent city Head-Office of the Bank. During the same year, he was the Deputy Head of the Department on Crediting and Returning Extended Credits under the Department of Construction Crediting and Financing of the Bank. From 2017 to 2018, he worked as the Head of the Tashkent city Head-Department – Deputy Head of the Group on the Coordination and Execution of the Tasks Provided by the President Department of the Republic of Uzbekistan. From 2018 to 2020, he was the Director of the Bank's Treasury Department. In January 2020, he was appointed as the Director of the Bank's Strategic Development Department, Advisor of the Chairman of the Management Board of the Bank, and a member of the Management Board.

The business address of each member of the Management Board is the Bank's registered office. No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to the Bank and such member's private interests or other duties.

Corporate Governance

The Bank complies with the Uzbekistan corporate governance regime. Corporate governance at the Bank has been carried out in accordance with the requirements of the Corporate Governance Code of the Bank, rules governing the operation of joint-stock companies and credit organisations in Uzbekistan, the Bank's Charter and other internal documents of the Bank.

As part of its corporate governance regime, the Bank follows its own Corporate Governance Code. The current version of the Corporate Governance Code was approved by the Bank's Supervisory Council on 25 December 2019.

The Bank's Corporate Governance Code sets out the Bank's main corporate conduct principles, promoting better performance of the management bodies of the Bank. It was based on a balanced approach to the interests of the Bank's shareholders, management bodies and other interested parties, with a view to enhance reliability and client satisfaction, promote business culture, improve control over the Bank's performance and to ensure compliance with highest ethical standards. The Corporate Governance Code seeks to improve and systemise approaches to client satisfaction by providing high quality banking services and reliability in accordance with the Bank's plan to evolve as a modern financial institution. To keep client service in line with high financial, business and technological standards, the Bank voluntarily undertakes to follow the principles and rules of corporate governance set out in the Corporate Governance Code. These principles and rules correspond to international best practices of corporate conduct and represent a high level of governance and performance control, business culture and compliance with high ethical standards. As corporate governance practice evolves in Uzbekistan and abroad, the Bank will seek to further improve its corporate governance rules and principles and achieve a higher level of compliance with the principles set out in the Corporate Governance Code.

Among other things, the Bank has implemented the following corporate governance features:

Independent Directors

According to the Regulation on the Supervisory Council of the Bank and the Corporate Governance Code, independent directors of the Bank are those Supervisory Council members who have no direct or indirect relationship with the Bank other than membership on the Supervisory Council, and who, among others:

- are not, and have not been in the past five years, employed by the Bank or its affiliates, where "affiliates" means, with respect to any person, any individuals or entities directly or indirectly controlling, controlled by or under common control with, that person and "control" means the power of an individual or entity, whether independently or jointly with other individuals or entities, directly or indirectly (through third parties), to influence activities of entities and/or individuals (including to determine the decision of the management or business policies of an entity through the direct or indirect (i.e. through third parties) ownership of more than 20 per cent. of its capital and/or by contract made between that individual or entity and the other individual(s) and/or entity(ies);

- are not holding a share or a participatory interest in the Bank's subsidiaries or affiliates;

- are not affiliated with the Bank's, its subsidiaries' or affiliates' significant clients, which have an agreement with such persons with the value exceeding the amount of the minimum wage set by the legislation;

- do not have an agreement with the Bank, its subsidiaries and affiliates for provision of services;

- are not employed as the executive body of the Bank, its subsidiaries and affiliates, or are not a family member of the person who held such position in the last five years;

- are not a Bank's controlling person (or not a part of the group and/or organisation which collectively controls the Bank); and

- have not entered in to a commercial contract with the Bank and are not an employee of a majority shareholder or a company, which holds higher position in banking sector.

The Bank's Supervisory Council currently has one independent director.

Internal Audit Committee

According to the charter and other internal regulations of the Bank, the Supervisory Council is responsible for creating the Audit Committee. Such committee is formed for pre-examination of the most important matters pertaining to the activities of the Bank.

The Audit Committee's functions also include maintaining the Supervisory Council's control over activities of the Bank's executive bodies and ensuring co-operation with the Bank's executive bodies on matters within the committee's competence, supervision over the reliability and efficiency of the Bank's financial activity and internal control system, control over measures taken to ensure the Bank's financial statements are complete, accurate and true, implementing and promoting a culture of risk management within the Bank, ensuring independence and fairness of internal and external audit functions, controlling performance of, and measures taken by the Bank's executive management under, the system alerting of potential malfeasance by the Bank's staff (including abuse of insider or confidential information) or by third parties, and of other irregularities in its operations.

Remuneration

In 2019, aggregate remuneration paid by the Bank to the members of its Supervisory Council and Management Board was 741.9 million soums. In turn, in the years ended 31 December 2018 and 2017, aggregate remuneration paid by the Bank to the members of its Supervisory Council and Management Board was 546.8 million soums and 427.1 million soums, respectively.

Members of the Supervisory Council are remunerated according to the Regulation on remunerations and compensations payable to members of the Supervisory Council (approved by the annual General Shareholders' Meeting on 27 February 2020). The members of the Bank's Management Board enter into employment contracts with the Bank, which set forth their remuneration divided into non-performance related and performance-related components.

Litigation Statement Concerning Management

For the previous five years, none of the members of the Supervisory Council or the Management Board:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Other Interests

No actual or potential conflicts of interest exist between the duties that any member of the Supervisory Council or the Management Board owes to the Bank and such member's private interests or other duties.

PRINCIPAL SHAREHOLDERS

As at the date of this Prospectus, the Bank's charter capital consists of 11,978,074,379 ordinary shares, all of which are fully paid and have a nominal value of 1,000 soums each.

The following table sets forth the shareholders of record of the Bank as at 12 October 2020.

Shareholder	Number of shares	Percentage of the share capital
UFRD	7,006,027,197	58.49%
Ministry of Finance of the Republic of Uzbekistan	4,972,047,182	41.51%
Total	**11,978,074,379**	**100.00%**

The Bank is not aware of any arrangements in existence as at the date of this Prospectus that could reasonably be expected to result in a change of control over the Bank.

TRANSACTIONS WITH RELATED PARTIES

The following is an overview of the Group's transactions with related parties as at the dates indicated below. The financial information set forth herein has, unless otherwise indicated, been extracted without material adjustment from the Financial Statements. See also "*Capitalisation*".

The table below sets out the outstanding balances of other related party transactions as at 30 June 2020 and 31 December 2019, 2018 and 2017.

	As at 30 June	As at 31 December		
	2020	**2019**	**2018**	**2017**
	(unaudited)		(audited)	
			million soums	
Cash and cash equivalents				
Government controlled entities..................	37,500	190,327	239,772	2,424,329
Associates..	179,242	479,830	-	-
Total category as per financial statement caption..	**7,777,491**	**7,001,599**	**6,614,154**	**11,080,508**
Due from credit institutions				
Government controlled entities..................	37,500	931,395	915,603	1,061,113
Key management personnel.......................	-	-	5,500	-
Total category as per financial statement caption..	**874,798**	**1,777,507**	**1,892,000**	**2,006,794**
Investment securities				
Government controlled entities..................	1,160,155	184,017	39,536	41,700
Total category as per financial statement caption..	**1,210,026**	**218,342**	**47,762**	**58,624**
Loans to customers				
Government controlled entities..................	34,892,272	30,179,247	23,834,751	24,479,659
Associates..	591,477	345,120	80	48,923
Key management personnel.......................	-	-	167	87
Total category as per financial statement caption..	**59,889,588**	**54,174,008**	**47,593,678**	**34,521,563**
Allowance for impairment losses – loans to customers				
Government controlled entities..................	(1,419,280)	(1,064,958)	(889,668)	(744,580)
Associates..	(18,325)	(13,750)	-	(2,527)
Key management personnel.......................	-	-	-	(1)
Total category as per financial statement caption..	**(2,588,283)**	**(1,942,121)**	**(1,568,196)**	**(1,940,684)**
Debt securities				
Government controlled entities..................	922,366	110,000	110,000	130,400
Total category as per financial statement caption..	**922,498**	**131,641**	**145,915**	**176,506**
***Subordinated* loans**				
Government controlled entities..................	359,683	359,683	-	-
Total category as per financial statement caption..	**1,532,805**	**1,459,376**	**-**	**-**
Amounts due to CBU and Government				
Government controlled entities..................	1,475,231	1,695,207	554,739	571,014
Total category as per financial statement caption..	**1,475,231**	**1,695,207**	**497,688**	**571,014**
Customer accounts				
Government controlled entities..................	3,652,693	3,839,553	3,188,288	1,772,418
Associates..	44,050	22,479	21,824	28,581
Key management personnel.......................	-	-	260	-
Total category as per financial statement caption..	**16,286,561**	**15,507,241**	**11,871,894**	**12,110,126**
Due to credit institutions				
Government controlled entities..................	1,379,195	637,095	482,022	967,997
Associates..	147	488	-	-
Total category as per financial statement caption..	**2,159,280**	**1,139,442**	**950,879**	**1,909,557**
Other borrowed funds				
Parent	3,238,108	2,051,876	-	-
Government controlled entities..................	4,539,739	20,862,255	23,076,835	14,620,050
Total category as per financial statement caption..	**37,532,082**	**33,115,228**	**37,439,050**	**29,382,360**
Guarantees				
Government controlled entities..................	1,691,123	1,636,778	1,404,508	1,969,884
Associates..	9,961	3	-	-

Total category as per financial statement caption	**1,994,540**	**1,903,098**	**2,350,499**	**2,076,391**
Letters of credit				
Government controlled entities	4,514,137	2,531,645	3,194,187	2,361,682
Associates	6,430	20,304		17,052
Key management personnel	-	-	600	-
Total category as per financial statement caption	**6,504,742**	**5,790,913**	**6,079,041**	**5,476,092**

The table below sets out the amounts included in profit or loss and other comprehensive income for the six-month period ended 30 June 2020 and the years ended 31 December 2019, 2018 and 2017.

	For the six months ended 30 June	**For the year ended 31 December**		
	2020	**2019**	**2018**	**2017**
	(unaudited)		(audited)	
			million soums	
Interest income on loans				
Government controlled entities	1,632,827	1,412,275	1,320,043	1,207,283
Associates	17,253	2,416	-	-
Total category as per financial statement caption	**2,563,865**	**3,770,997**	**2,620,568**	**1,286,390**
Impairment charge for loans				
Government controlled entities	263,626	347,882	300,560	(234,861)
Associates	1,466	1,100	1	-
Key management personnel	-	-	2	-
Total category as per financial statement caption	**987,793**	**940,219**	**600,164**	**(1,301,695)**
Interest expense on deposits				
Government controlled entities	(118,175)	(201,940)	(59,916)	(6,075)
Associates	-	(1,124)	-	-
Total category as per financial statement caption	**(305,867)**	**(530,030)**	**(389,072)**	**(201,745)**
Interest expense on other borrowed funds				
Parent	(70,310)	(47,031)	-	-
Government controlled entities	(5,167)	(310,056)	573,665	-
Total category as per financial statement caption	**(619,684)**	**(1,530,095)**	**(932,769)**	**-**
Fee and commission income				
Government controlled entities	16,740	118,295	62,134	53,741
Associates	114	69	510	441
Total category as per financial statement caption	**175,542**	**446,791**	**391,131**	**338,299**
Fee and commission expense				
Parent	-	(7,275)	-	-
Government controlled entities	(28,634)	(19,786)	(7,029)	(48,195)
Associates	(832)	(514)	-	-
Total category as per financial statement caption	**(35,387)**	**(83,073)**	**(74,928)**	**(82,800)**
Operating expenses				
Key management personnel	(2,222)	(3,499)	(2,869)	(2,813)
Total category as per financial statement caption	**(369,465)**	**(354,925)**	**(378,820)**	**(538,959)**
Salaries and other benefits				
Key management personnel	(2,147)	(3,347)	(2,295)	(2,268)
Total category as per financial statement caption	**204,291**	**515,972**	**279,494**	**(199,091)**
Social Security Costs				
Key management personnel	(75)	(152)	(574)	(545)
Total category as per financial statement caption	**19,717**	**94,909**	**65,459**	**(48,883)**

THE BANKING SECTOR AND BANKING REGULATION IN THE REPUBLIC OF UZBEKISTAN

Introduction

The Uzbekistan financial sector consists mainly of Uzbekistan banks, microfinance organisations, pawn offices and insurance companies. Microfinance organisations provide a limited range of banking services, such as accepting deposits and issuing micro-loans, while banks provide a wide range of banking services. The CBU acts as the regulator of the financial sector supervising the banking sector and the securities market. The CBU issues licences, establishes mandatory economic ratios and reserve requirements, regulates accounting and reporting rules and supervises compliance with laws and regulations. The CBU also controls inflation, issues money and ensures the effective functioning of payment systems. The main objectives of the CBU is ensuring the stability of the prices, banking system and functioning of the payment systems.

History of the Uzbekistan Banking Sector

The Uzbekistan banking sector was transformed following Uzbekistan's independence from the Soviet Union on 31 August 1991, as a two-tier banking system was introduced and the CBU was established with the adoption of the Law "On banks and banking activity". Development of monetary policy and the payment system and formation of the commercial banking industry were among the main objectives of the newly established CBU.

The soum, introduced as the national currency on 1 July 1994, was a landmark in the formation of an independent banking system and the development of the economy of Uzbekistan as a whole. Afterwards, the CBU became an independent body and began to perform its function as a facilitator of the effective formation of the national monetary system. The Law "On the Central Bank of Republic Uzbekistan", which was adopted in 1995, clearly defined new status, powers, goals and objectives of the CBU.

The Law of the Republic of Uzbekistan "On banks and banking activity", adopted in 1996, established the legal framework for the activity of commercial banks. The laws "On the Central bank of the Republic Uzbekistan" and "On the banks and banking activity" were both drafted based on best practices of developed financial systems. These laws, as well as the Law "On the stock companies and protection of the rights of the shareholders", created favourable legal conditions to establish private banks. Due to the reforms implemented in 1996, the CBU became an independent authority for monetary regulation and banking supervision. The Law "On the banks and banking activity" laid down principles for the formation of universal commercial banks based on the diversification of banking assets and the attraction of foreign capital.

In 1996, credit and financial institutions serving particular sectors of the economy, such as the automobile industry, aircraft building, agriculture and others, were created to finance these strategic sectors. More specialised banks were established to meet the needs of business environments and economic developments in a wider range of economy sectors.

In 1997, reforms were implemented to stimulate private capital inflows to the banking sector. This process was followed by the Presidential Decree "On the arrangements on motivation to form private commercial banks" in 1997 providing certain benefits to the banks which were 50 per cent. or more owned by individuals. From March 1997, after the introduction of new software and the conversion of all accounts to an electronic regime, banks were able to process payments within 15 minutes across the whole territory of the Republic and within three minutes across Tashkent.

The statutory acts regulating the activity of commercial banks were established on the basis of Basel recommendations on banking supervision and international practice, as well as by taking into consideration the framework of international standards on financial statements. Furthermore, the principle of prior detection of issues on commercial banks' balance sheets was introduced. In addition, new measures were introduced with the aim of supporting the financial stability of commercial banks, including capital and liquidity control.

From 1999 to 2000, Uzbekistan implemented a mechanism for foreign exchange sales. This mechanism allowed authorised banks to purchase currency from their clients on a contractual basis.

In 2002, the Law of the Republic Uzbekistan "On the guarantee of security of funds of citizens in the banks" established the Deposit Security Fund, which covered all commercial banks operating on the territory of Uzbekistan.

From 2003 to 2004, the regulation and systematic development of banking activity focused on further liberalisation and intensification of the reforms in Uzbekistan. Its main objective was to strengthen confidence in the banking sector. In October 2003, the Republic of Uzbekistan assumed obligations under Article 8 of the IMF Articles of Association. The policy of the CBU at this time was aimed at setting incentives for export and effective use of currency resources, together with prevention of inflation and sharp fluctuations in currency exchange rates.

Between 2005 and 2006, an emphasis was made on the realisation of management of monetary policies, and the improvement of stability of the national currency and its exchange rate.

From 2006 to 2007, the banks expanded their mortgage loans portfolio. The Law "On mortgage" and the Law "On consumer loans" facilitated mortgage loans and consumer loans. As a result, such types of loans became very popular.

In 2006, the UFRD was established to finance and co-finance projects of the state investment program. The UFRD is a financial institution under the authority of the Cabinet of Ministers of the Republic of Uzbekistan, designed to ensure the implementation of projects for the modernisation and technical re-equipment of leading sectors of the economy, dynamic, sustainable and balanced socio-economic development of the country, as well as the implementation of an effective structural and investment policy. The UFRD provides loans for state-owned entities through commercial banks on concessional terms. The UFRD's loans are granted for a period of between 7 and 15 years, including a grace period of 3 to 5 years, at a minimum rate of 2.3 per cent. The UFRD's resources come from surplus tax revenues from the subsoil and export taxes, income from the sale of products under production sharing agreements with foreign partners and other revenue streams.

From 2008 to 2009, the main objective of the CBU was the development of retail banking. As a result, the range of services provided by the commercial banks of Uzbekistan expanded and new banking products were introduced.

From 2010 to 2014, the financial stability of the banking sector of Uzbekistan increased, radically changing approaches and systems for evaluating the performance of the entire financial and banking sector, and ensuring access to a higher level of organisation of activities in line with best international practices, standards and performance indicators. In the end of 2012, the Law "On private banking and financial institutions and guarantees of their activities" was adopted, introducing regulation for private banking institutions. The main objectives of the law were to ensure the protection of the rights and legitimate interests of private banking and financial institutions, create conditions for attracting private capital to the banking and financial sector, increase competition and improve the quality of customer service in the banking and other financial services market. In addition, in October 2013, the Law "On the collateral register" was adopted, which introduced regulation in relation to maintaining of the collateral registry.

From 2014 to 2017, the Government introduced reforms covering the corporate governance principles' implementation, step-by step implementation of Basel III and the improvement of material resources of commercial banks by providing customs exemption for imports of software, ATMs and other bank equipment supporting settlement by plastic cards. Such measures were adopted to increase the financial stability of commercial banks and to improve their material base.

In 2015, commercial banks in the form of joint-stock companies were obligated to have foreign investors holding at least 15 per cent. of their share capital. Several banks started negotiations with foreign investors. Such requirement was repealed on 18 March 2020.

In 2017, in order to ensure the commercial banks' liquidity, the requirement on mandatory deposit of funds by commercial banks with the CBU to cover potential loss on state assets was revoked.

In 2017, capital support received by Uzbekistan banks from the UFRD was approximately U.S.$677.5 million. The UFRD provided additional capitalisation to Bank "Asaka" amounting to U.S.$170million, JSCB "Agrobank" amounting to U.S.$140 million, Turonbank amounting to U.S.$22 million, National Bank for Foreign Economic Activity of the Republic of Uzbekistan amounting to U.S.$51 million and other banks amounting to U.S.$223.5 million. In 2018, the health of the banking sector improved and the UFRD had only to inject U.S.$60 million into JSCB "Turonbank". Such measures were done to support a capitalisation level of commercial banks, to increase financial stability of the banking system, and expansion of the banks' participation in investment projects and services provided to SME.

In 2017, the CBU (jointly with the General Prosecution Office) approved the Rules on internal control in commercial banks to counteract a laundering of money generated by crime activities, terrorism financing and financing proliferation of weapons of mass destruction (registered with the Ministry of Justice No. 2886 dated 23 May 2017).

In the second half of 2017, the CBU began active reforms in the monetary sector. In order to reduce inflationary pressure, the CBU tightened monetary conditions by raising the refinancing rate from 9 per cent. as of June 2017 to 16 per cent. as of September 2018.

In 2018, main regulatory changes designed to improve the population's access to retail banking across Uzbekistan. Access to banks' premises was simplified. Customers were able to enter client service areas without producing ID and other documents required before 2018. Banks were required to ensure transparency of loan approval process. Some fines, fees for considering loan application, loan extension and servicing and pre-payment of loans (microloans) were prohibited. The banks were encouraged to introduce new banking products for their consumers to meet their financing needs. The CBU approved the Regulation on minimum requirements for commercial banks to be applied during the interaction with consumers (registered with the Ministry of Justice of Uzbekistan No. 3030 dated 2 July 2018).

In 2019, to improve the regulation of the banking and financial sector the Laws "On banks and banking activity" and "On Central Bank" were adopted in a revised version. The regulation of the payments and payment systems in Uzbekistan was set out in the Law "On payments and payments systems". As per Presidential Decree No. UP-5877 dated 18 November 2019, Uzbekistan started transitioning to the inflation-targeting regime from 1 January 2020.

On May 2020, Uzbek Government adopted the Strategy on Banking Reforms for the period of 2020-2025. The main purposes of the strategy are to decrease state presence in the banking sector, improving access to and quality of the banking services and products for population, increasing the ranking of Uzbek banking system.

The CBU also recently created a new platform for interbank monetary operations that connects all commercial banks into a single trading system and ensures transactional transparency. It also established a system of inflation forecasting using econometric models. The CBU has prioritised raising the efficiency of monetary policy in 2018 by minimising the impact of monetary factors on inflation, ensuring price stability and reducing inflationary pressure.

For information on recent reforms and developments in the Uzbekistan banking sector, see "*–Recent and Expected Banking Reforms*" below.

Overview of the Banking Sector

As at 30 June 2020, there were 31 active commercial banks in Uzbekistan, including five wholly state-owned banks, nine partly state-owned joint-stock banks, eight banks with foreign capital and nine private banks. As at 1 January 2020, according to the CBU, the total number of credit institutions throughout the country, including microfinance organisations and branches of commercial banks, offices of banking services, mini-banks and self-service points was 2,954. As at 1 January 2020, according to the CBU, the aggregate assets of all banks in Uzbekistan amounted to approximately 309.7 trillion soums. The banking system of Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations, and practices. Most banking assets remain in state-owned or controlled banks, and the majority of loans are directed or channelled by the Government to develop certain pre-selected industry sectors. The slow pace of reforms in the banking system limits the role that banks can play as financial intermediaries, thus inhibiting the ability of individuals or private companies to obtain loans and other banking services. A significant portion of sector funding is attributable to the UFRD.

As at 30 June 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85 per cent. of all of the banking sector's total assets, 89 per cent. of the banking sector's total loans, 85 per cent. of the banking sector's total capital and 72 per cent. of the banking sector's total deposits, whereas the banks without state ownership held 15 per cent. of all of the banking sector's total assets, 11 per cent. of the banking sector's total loans, 15 per cent. of the banking sector's total capital and 28 per cent. of the banking sector's total deposits.

Assets and Liabilities, Credit Quality and Interest Rates

The following table sets out certain data relating to the banking sector in Uzbekistan as at the dates indicated:

	As at 31 December					As at 30 June
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
	(soums billions, except for ratio)					
Total number of banks	26	27	28	29	29	31
Total equity of banks	**7,345.3**	**8,981.3**	**20,676.1**	**26,578.9**	**51,030.7**	**54,925.6**
of which:						
in national currency	5,376.4	6,697.6	14,488.1	26,312.1	50,726.2	54,600.0
in foreign currency	1,968.9	2,283.6	6,188.0	266.9	304.5	325.5
Total assets of banks	**65,293.3**	**84,075.0**	**166,631.8**	**214,319.6**	**272,726.9**	**315,975.7**
of which:						
in national currency	39,941.6	47,877.5	59,968.2	95,490.9	143,650.2	162,188.1
in foreign currency	25,351.7	36,197.5	106,664.6	118,828.7	129,076.7	153,787.6
Total loans to customers	**39,718.3**	**52,610.5**	**110,572.1**	**167,390.6**	**211,580.5**	**244,906.2**
of which:						
in national currency	23,591.5	30,104.4	41,733.9	73,863.6	110,633.2	122,881.1
in foreign currency	16,126.8	22,506.1	68,838.2	93,527.0	100,947.3	122,025.1
Total deposits	**30,057.5**	**37,183.2**	**59,578.7**	**70,001.4**	**91,009.0**	**98,227.8**
of which:						
in national currency	22,905.3	27,176.4	30,753.4	43,323.5	51,040.0	54,925.8
in foreign currency	7,152.2	10,006.7	28,825.3	26,677.9	39,969.0	43,302.0
Capital adequacy ratio(1), %	14.7	14.7	18.8	15.6	23.5	20.5

Source: CBU.

(1) Total regulatory capital to risk weighted assets.

Historically, the assets of Uzbekistan banks have been weighted in favour of loans to the public sector as compared to loans to the private sector. However, as at 31 December 2019, the distribution of assets was more even.

Due to increased lending by the banking sector to finance the economy, the loan portfolio real growth of the banking sector amounted to 31.4 per cent., 49.2 per cent., 48.9 per cent. in 2017, 2018, and 2019, respectively. As at 30 June 2020, this indicator amounted to 9.0 per cent.

Banking system soundness in terms of asset quality is characterised by the weighted average of NPLs. NPLs accounted for 2.9 per cent. (according to the CBU standards) of total loans in the banking sector as at 1 July 2020, compared to 1.5 per cent. 31 December 2019, and 1.6 per cent. as at 31 December 2018. Loan portfolios of banks constituted 211,581 billion soums as at 31 December 2019 and 167,390.6 billion soums as at 31 December 2018.

As at 1 July 2020, the majority of aggregate liabilities in the banking sector were attributable to loans. 50.1 per cent. of all liabilities were made up of loans and 37.6 per cent. were comprised of deposits, while the remaining 12.3 per cent. was accounted for by other liabilities. A high concentration of loans is more prevalent in state-owned banks due to the fact that the UFRD resources were provided to these banks in order to assist in financing the key strategic sectors of the economy. The total liabilities in the banking system have steadily increased in recent years, with, as at 31 December 2017, total liabilities being 145,955.7 billion soums, 31 December 2018, 187,741.0 billion soums and as at 31 December 2019, 221,696.0 billion soums. As at 1 July 2020, total liabilities in the banking system amounted to 261,050.1 billion soums.

	As at 31 December					As at 30 June
	2015	2016	2017	2018	2019	2020
	(soums billion)					
Interest Income	4,397.3	5,293.1	7,960.4	14,516.8	25,500.2	17,031.2
Interest Expense	2,500.5	3,075.4	4,623.1	8,354.9	15,601.8	10,522.1
Net profit margin	**1,896.7**	**2,217.7**	**3,337.3**	**6,161.9**	**9,898.4**	**6,509.0**
Fee and commission income	2,856.6	3,403.8	6,916.8	6,564.1	9,619.5	6,157.6
Fee and commission expense	569.3	629.3	1,942.7	1,342.6	2,855.8	1,607.9
Operating expense	2,561.6	3,014.4	4,137.7	5,583.0	6,814.3	3,522.3
Non-interest gain (loss)	**(274.3)**	**(239.9)**	**836.5**	**(361.5)**	**(50.7)**	**1,027.4**
Provision for impairment of loans and leases	414.6	438.9	1,631.7	1,746.3	3,855.7	4,055.2
Provision for losses other	52.8	73.7	279.0	195.6	298.9	166.8
Profit before tax	1,155.0	1,465.2	2,263.0	3,858.4	5,693.2	3,314.4
Income tax expense	240.5	311.3	379.7	658.9	1,012.5	692.1
Return adjustments	0,0	1.1	2.3	0.0	0.0	0.0
Net profit	**914.6**	**1,152.8**	**1,881.0**	**3,199.5**	**4,680.7**	**2,622.3**

Source: CBU.

The current interest rate policy aims to ensure positive real interest rates and contributes to reducing dollarisation of the banking system. As at 1 July 2020, the refinancing rate - which is the main policy rate - was 15.0 per cent. as compared to 16.0 per cent. as of 1 July 2019. The average interest rate on the interbank money market grew from 13.1 per cent. in 2017 to 14.9 per cent. in 2018 and further to 17.5 per cent. in 2019. The increase in the interest rate resulted from the lack of long-term liquid resources in the national currency in the banking system, performance by the businesses of their tax obligations and measures taken by the commercial banks to ensure the compliance with the liquidity requirements. At the same time, due to the improvement of liquidity in commercial banks, the weighted average interest rate on soum-denominated time deposits with a term of up to one year increased to 17.9 per cent. as at 1 June 2020, from 15.5 per cent. as at 1 June 2019. The weighted average interest rate on soum-denominated time deposits with a term of over one-year increased to 19.1 per cent. as at 1 June 2020 from 17.3 per cent. as at 1 June 2019.

The international reserves of Uzbekistan consist of foreign currency reserves and monetary gold. Total net foreign currency reserves and monetary gold reserves as at 30 June 2020 were U.S.$31,620.7 million per CBU data (net international reserves do not include the foreign currency of commercial banks and government entities, except the Ministry of Finance and the UFRD). As at 30 June 2020, Uzbekistan's total official international reserves, including gold and the CBU's foreign currency reserves, amounted to U.S.$32,331.7 million, an increase of 9.8 per cent. from the beginning of the year and 14.2 per cent. compared to the same period of last year. Of this, U.S.$12,454.5 million consisted of foreign currency assets and U.S.$19,482.3 million was in gold.

Monetary and Exchange Rate Policy

The CBU is responsible for implementing monetary policy. The CBU focuses on ensuring macroeconomic stability and reducing monetary factors influencing inflation. In line with the President's Decree "On Measures to Drastically Improve Activities of the Central Bank of the Republic of Uzbekistan" dated 9 January 2018, the CBU's mandate was expanded to include the medium-term goal of transitioning to inflation targeting, as well as ensuring the stability and development of the banking and payment system.

Starting in 2018, the CBU began focusing its monetary policy on the stability of prices in the economy. Certain currency restrictions were abolished and/or waived, including (i) restrictions on foreign currency purchase and sale by residents and cash withdrawals from debit cards in both national and foreign currencies for individuals were made available; (ii) the obligation to sell 50 per cent. of export hard currency revenues to commercial banks at CBU's exchange rate; and (iii) commercial banks were allowed to independently set their own tariffs and fees based on market conditions.

Foreign Exchange and International Reserves

From 2014 to 2015, the real effective exchange rate of the soum strengthened against the currencies of the major trading partners of Uzbekistan. As a result, the CBU accelerated the devaluation of the exchange rate of the soum by 67 per cent., from 2,810 soum per U.S. dollar as at 1 January 2016 to 4,210 soum per U.S. dollar as at 29 August 2017 to preserve the competitiveness of domestic products in domestic and international markets.

In September 2017, the CBU liberalised the foreign currency market. As a result, the exchange rate of the soum was devalued to 8,100 soums per U.S. dollar as at 5 September 2018. As at 31 December 2019, the nominal exchange rate was 9,507.56 soums per U.S. dollar and as at 30 June 2020, the nominal exchange rate was 10,173.38 soums per U.S. dollar.

In 2018, soum-denominated notes issued by the IFC were listed on the London Stock Exchange.

The CBU holds the international reserves of the Republic of Uzbekistan, including:

- gold and other precious metals;
- foreign currency in cash;
- foreign-currency bank account balances and deposits in foreign banks and international financial organisations; and
- foreign currency securities issued or guaranteed by foreign governments, banks and international financial organisations.

The CBU contributes to the maintenance of international reserves at a level sufficient for the implementation of the monetary and exchange rate policies of the Republic of Uzbekistan, as well as for international transactions.

Foreign Investment

Foreign investment into the banking sector is regulated by the laws "On the Central Bank of Uzbekistan", "On the Banks and banking activities", "On the Securities market", as well as the regulation of the Cabinet of Ministers No. 56 dated 10 March 2014 regarding the process of passing the approval procedures in the sphere of banking activities and Regulation No. 2014 dated 8 October 2009 regarding the registration and licensing procedures for banking activities. The new regulation, which replaces Regulation No. 56 dated 10 March 2014 and Regulation No. 2014 dated 8 October 2009, was adopted on 30 June 2020 and came into force on 1 October 2020. This regulation sets additional requirements regarding the licensing of banks, preliminary approval for the purchase of shares of banks, qualification requirements to the executive management of the banks in line with the new version of the Law "On banks and banking activity".

The amount of shareholders' equity of non-resident banks that intend to open banking subsidiaries, or participate in the incorporation of the banks in the territory of Uzbekistan must be not less than EUR500 million. Non-resident banks are not permitted to open branches in the territory of Uzbekistan.

The CBU cooperates with a number of foreign financial institutions and central banks to assist with the transition to inflation targeting model as well as the development of the Uzbek banking system. In 2018, the CBU participated in seven joint projects with IMF regarding enhancement of monetary policy instruments, stress-testing models for commercial banks, financial statistics enhancement and balance of payments maintenance.

The CBU closely cooperates with the World Bank, which provides technical assistance on issues of stress-testing methodology of the banking sector and a framework of rules and regulations on prudential supervision. The CBU also cooperates with the World Bank in digital banking and financial education.

The CBU also cooperates with the EBRD under the Memorandum of Understanding Regarding Cooperation in the Republic of Uzbekistan.

The Asian Development Bank provided technical assistance and support in the implementation of a risk-based approach in bank supervision. The National Bank of Switzerland advises the CBU in respect of the implementation of inflation analysis and forecasting models.

The liberalisation of foreign exchange control in September 2017 evidences efforts by the Uzbekistan government to improve the foreign investment climate in the country.

Concentration within the Banking Sector

As at 1 June 2020, there was a high level of concentration in the banking sector, with the wholly and partly state-owned banks holding 85 per cent. of all of the banking sector's total assets, 89 per cent. of the banking sector's total loans, 86 per cent. of the banking sector's total capital and 71 per cent. of the banking sector's total deposits, whereas private banks held 15 per cent. of all of the banking sector's total assets, 11 per cent. of the banking sector's total loans, 14 per cent. of the banking sector's total capital and 29 per cent. of the banking sector's total deposits.

Payment Systems

There are three settlement systems currently in place in Uzbekistan. The first is the Interbank Payment System, which is designed for conducting electronic payments in soums among banks through their correspondent accounts at the CBU. The second system is the Unified Republic-wide Processing Center and National Interbank Processing Centre, which bring together the commercial banks that issue Uzbek soum cards. The processing centres established the interbank payment clearing system for soums plastic cards called Uzcard and HUMO, respectively.

Credit Ratings

In 2018, S&P affirmed its "BB-" long- and short-term foreign and local currency sovereign credit ratings of the Government, with a stable outlook. In 2018, Fitch affirmed Uzbekistan's long-term foreign and local currency issuer default ratings at "BB-" with a stable outlook. Fitch also affirmed the issuer default ratings on Uzbekistan’s senior unsecured foreign- and local-currency bonds at "BB-" and the country ceiling was affirmed at "BB-".

Several Uzbekistan banks, including the Bank, have been rated by international rating agencies. In January 2020, Moody's affirmed its long-term local currency deposit rating at "B1" and long-term foreign currency deposit rating at "B2", and S&P has upgraded its rating of the Bank to "BB-" with a stable outlook in December 2018.

Role of the Central Bank of Uzbekistan

The Constitution of the Republic of Uzbekistan, the Law "On the Central Bank of the Republic of Uzbekistan" and other legislative acts determine the legal status, powers, principles of organisation and activities of the CBU. The CBU is the head of the banking system for the Republic of Uzbekistan under Article 124 of the Constitution.

The CBU is a legal entity owned by the state, but it carries out financial activities and makes decisions within its authority independently. The CBU issues banknotes in circulation, acts as a bank, adviser as well as a fiscal agent of the Government of the Republic of Uzbekistan, and stores and manages official foreign exchange reserves for the Republic of Uzbekistan. The CBU is responsible for most of the supervisory and regulatory functions in Uzbekistan’s financial sector. Additionally, the CBU can buy and sell government securities on the open market, as well as debt obligations issued by the CBU itself.

The main objectives of the CBU is to ensure stability of the prices, banking system, and functioning of the payment systems. Activity of the CBU on ensuring the stability of the banking system should not affect the stability of the prices. Generation of profit is not the goal of the CBU.

Role of the CBU as the Supervisor of Uzbekistan’s Financial Sector

As the regulator of the financial market, among others, the CBU:

- develops and realises monetary-credit, as well as currency control policies;
- monitors, analyses, and forecasts the level of inflation in the Republic of Uzbekistan publishes the relevant materials and statistical data;
- performs the state registration and licensing of credit institutions;
- manages, records and stores the international reserves of the Republic of Uzbekistan, including the reserves of the Government of the Republic of Uzbekistan by agreement; and
- performs other functions as per the laws of the Republic of Uzbekistan.

Among others, the CBU has the authority to:

- set the rules of settlement in the Republic of Uzbekistan;
- set the procedure of opening, operating and closing the bank accounts;
- issues banknotes and retrieve them from the circulation within the territory of the Republic of Uzbekistan;
- set procedure for the purchase and sale of banknotes and precious metals; and
- perform other authorities as per the laws of the Republic of Uzbekistan.

Issuing Money and Regulating its Circulation

The CBU is exclusively entitled to issue monetary symbols in circulation in the form of banknotes and coins, including the precious metals, as legal means of payment in the territory of the Republic of

Uzbekistan. Monetary symbols in circulation are unconditional obligations of the CBU and are backed by all of its assets.

The CBU also establishes rules for the storage, transportation and collection of cash.

Monetary Policy

The CBU develops and informs the President of the Republic of Uzbekistan and the Senate of the Oliy Majlis (Parliament) of the Republic of Uzbekistan on the main directions for the monetary policy for the coming year no later than 30 days before the beginning of the next fiscal year.

The main directions of monetary policy should contain:

- main principles of monetary and credit regulation;
- review of the economic development for the previous period;
- forecasts of the economic development, main macroeconomic indicators, including inflation, payment balance and monetary-credit indicators;
- inflation targets, key parameters and measures taken by the monetary policy for the coming year, as well as an analysis of the risks of achieving the objectives of the monetary policy.

Acting as Banker, Adviser and Fiscal Agent of the Government

The CBU may carry out banking operations to maintain the main accounts of state authorities and their agencies, organisations, authorities, including the Ministry of Defence, Ministry of Internal Affairs, National Security Service, Ministry of Emergency Situations, as well as enterprises, institutions and organisations subordinated to the CBU.

The CBU acts as a banker, adviser and fiscal agent of the Government of the Republic of Uzbekistan. The CBU also advises the Government on all-important issues related to its tasks and competencies. Furthermore, the CBU annually reports to the Government on economic and financial issues with recommendations on the preparation of the state budget.

The Government consults with the CBU on borrowing plans from internal and external sources, including the amounts that will be paid as part of such borrowing, on proposed terms and conditions for granting loans. The Ministry of Finance informs the CBU about all loans received by the Republic of Uzbekistan and its governmental bodies.

The CBU may accept deposits and currency values of the Government, as well as other government bodies. As a depository institution, the CBU receives and gives out cash funds and keeps their records. The CBU can pay interest on such deposits.

The CBU, acting under the terms agreed with the Ministry of Finance, may act as a fiscal agent of the Government of the Republic of Uzbekistan and state bodies upon:

- placement of debt obligations (securities) issued by the Ministry of Finance and other state bodies, registration of placement;
- payment for the value, interest and other payments on specified debt obligations (securities);
- maintenance of accounts for the specified debt obligations (securities) and execution of payment transactions with them; and
- execution of other transactions with specified debt obligations (securities).

The CBU advises the Ministry of Finance on the schedule and volume of issuance of government securities and the repayment of public debt, considering its impact on the liquidity of the banking system and monetary policy priorities when doing so.

Operation of Clearing and Settlement Facility

The CBU is entitled to assist banks in settlement and clearing services for interbank payments, including payment by bank cards, and other payment instruments, determine the procedure for conducting such operations and to give respective prescriptive orders.

Supervision and Licensing

The CBU performing its regulatory functions establishes:

- the procedure of licensing activities, which require the CBU's license;
- the procedures and conditions of assessing the potential purchaser of the banks' shares;
- minimum requirements to the charter fund (charter capital) of microcredit organisations, pawn offices, mortgage refinancing organisations, payment organisations, and payment system operators;
- the procedure of terminating the activity and liquidation of banks, including the voluntary liquidation; and
- other requirements deriving from the functions and authorities of the CBU.

The CBU performing its supervisory functions establishes:

- mandatory to all credit organisations rules of conducting financial operations, accounting, drafting and providing financial and supervisory reports, including the annual reports, providing information, necessary for the assessment of risks and supervision of their activity;
- mandatory to all payment organisations, payment system operators, currency exchanges and credit bureaus rules of conducting their activity and operations;
- calculation procedure and permissible values of prudential standards for credit organizations, including systemically important banks and banking groups;
- the additional requirement to the values of liquidity ratios and capital adequacy requirements of the banks and banking groups, which have systemic importance;
- the procedure for the implementation of interim management in banks.

The CBU performing its supervisory functions is authorised to take certain actions provided in the Law "On Banks and banking activity"

In order to start operations, a bank in Uzbekistan is required to be registered with the CBU and hold a general banking licence issued by the CBU. Establishment of a bank is subject to a prior authorisation of the CBU. A decision concerning the issuance of a prior authorisation should be rendered within a period not later than three months from the day of submission of the application with all necessary documents, and should be based on a valuation of the financial possibilities, reputation of the founders, professional qualifications of the directors of the bank, evaluation of the business plan, financial plan, structure of capital, and confirmation of assets required for banking activities (premises, equipment, etc.). This period can be extended in certain cases set out in the Law "*On banks and banking activity*".

In order to register a bank and obtain a banking licence, the founders must within a period not exceeding six months from the date of receipt of prior authorisation, comply with the requirements established by law. The decision to register a bank and issue a banking licence is made by the CBU within a period not exceeding one month from the date of fulfilment of the requirements of the CBU.

Regulation of the Banking Sector

Capital Adequacy

In accordance with the Law "On the banks and banking activity", authorised capital of the Bank is formed by monetary funds of founders and shareholders of the Bank. Use of funds obtained through loans, pledges and other engaged funds is not allowed. Nevertheless, in exceptional cases and in accordance with legislation, budgetary funds may be used to form authorised capital of a bank. From 1 October 2017, the minimal amount of authorised capital of a bank is 100 billon soums.

Liquidity and Reserve Requirements

Commercial banks must monitor and control liquidity risks for major currencies. Banks should take into account unexpected revenue and expenses that may occur when monitoring and controlling the liquidity risk, including future transactions, repurchase agreements, devalued letters of credit, and letters of credit issued to unsatisfactory debtors and guarantees. Banks in Uzbekistan must comply with (i) an instant liquidity ratio; (ii) liquidity compensation ratio; (iii) net stable funding ratio; (iv) the ratio of high liquidity assets to the total assets. The instant liquidity ratio is defined as the ratio of the amount of cash and cash equivalents, securities of the Government of the Republic of Uzbekistan and the CBU and funds on the accounts of the bank with the CBU (except for mandatory reserves on the CBU accounts) to the amount of liabilities payable on demand. Only funds in the national currency, soums, are counted towards instant liquidity ratio. Instant liquidity ratio shall not be less than 25 per cent.

Liquidity analysis of a bank should focus on trends in liquidity indicators analysed during a period (month, quarter, year) and should analyse the past and current strategies for resource allocation. Liquidity analysis should also assess the causes of changes from past status. Liquidity coefficients are part of the overall liquidity adequacy ratio.

Additional liquidity ratios calculated through the liquid assets to total assets ratio and liquid assets to non-current liabilities ratio are also used in the calculation of liquidity. The share of pledged securities in the total securities portfolio also helps the banks to determine their liquidity position. When managing its liquidity indicators, a bank’s management should also take into account other factors affecting current liquidity individual to a specific bank’s financial position.

Requirements on liquidity indicators

The liquidity compensation ratio ("**LCC**") is defined as a ratio of highly liquid assets to the total net expenses payable within 30 days from the date of calculation. LCC shall not be less than 100 per cent. From 1 September 2019, this indicator shall be calculated in each of:

- all currencies;
- the national currency; and
- all foreign currency-denominated assets combined.

The net stable funding ratio is defined as the ratio of available stable funding to the required amount of stable funding. The net stable funding ratio shall not be less than 100 per cent. Available stable funding includes total capital; liabilities with maturity of more than one year; 30 per cent. of loans and deposits with no maturity date; as well as 30 per cent. of term deposits and loans with maturity of less than one year. The required amount of stable funding includes assets with maturity more than one year, including impaired loans and non-financial assets; assets in court proceeding or not recovered in the prescribed manner; 30 per cent. of assets with maturity of less than one year; as well as 15 per cent. of off-balance sheet items.

Regulation on Liquidity Requirements of Commercial Banks in Uzbekistan

According to the regulation on liquidity requirements of commercial banks in Uzbekistan, the following are considered as liquid assets: cash, gold bullions, the deposit money of banks at the account of CBU, money deposited at corresponding accounts of banks, securities of the CBU and the Government of Uzbekistan, short-term inter-bank loans (up to 30 days) and deposits, sovereign bonds of low risk countries and central banks, as well as other financial demands to the government and central banks of such countries. The securities of those leading companies in low-risk countries that are considered as low-risk list securities according to rating agencies such as Standard & Poor's, Fitch Ratings and Moody's Investors Service or any other rating agencies recognised by the CBU.

According to the regulation on liquidity requirements of commercial banks in Uzbekistan, when the sovereign, banks or corporations have Standard & Poor's, Fitch Ratings, Moody's Investors Service and any other rating services recognised by the CBU, the lowest of them will be recognised and considered.

Mandatory Ratios

Mandatory economic ratios are established by the following regulations of the CBU:

- Capital Adequacy Regulation;
- "On requirements for liquidity management of commercial banks" No. 2709 dated 13 August 2015; and
- "On maximum risk level for a single borrower or a group of related borrowers" No. 2707 dated 5 August 2015.

A bank's regulatory capital serves as a base for calculation of the mandatory economic ratios and limits. A bank's regulatory capital consists of Tier I regulatory capital and Tier II regulatory capital. Tier I regulatory capital consists of Tier I main capital and Tier I additional capital and includes, among other items, charter capital, retained earnings and certain reserve funds. Tier II regulatory capital includes, among other items, reserves for standard loans (assets) and subordinated debt.

The following table sets forth the mandatory economic ratios that banks must observe on a daily basis and report to the CBU on the monthly basis. All mandatory economic ratios are calculated based on stand-alone financial statements prepared under Uzbekistan GAAP.

Mandatory Economic Ratio	Description	CBU Mandatory Economic Ratio Requirements
Total Capital Adequacy Ratio	Total Capital Adequacy Ratio is calculated as a ratio of Total capital to Risk-Weighted Assets. Total capital consists of Tier I and Tier II capital.	Minimum 13%
Tier I Capital Adequacy Ratio	The Tier I Capital Adequacy Ratio is calculated as a ratio of Tier I capital to Risk-Weighted Assets. Tier I capital consists of main capital and Tier I additional capital.	Minimum 10%
Leverage Ratio	Leverage Ratio is reported to reflect how leveraged a bank is in relation to its consolidated assets. The leverage ratio is calculated as a ratio of Tier I capital to assets, including certain assets mentioned in the Capital Adequacy Regulation.	Minimum 6%
Instant Liquidity Ratio	Instant Liquidity Ratio is calculated as the ratio of the total liquid assets (cash, cash at correspondence accounts, repo, government bonds) to total liabilities.	Minimum 25%
Maximum Exposure to a Single Borrower or a Group of Related Borrowers for unsecured loan portfolio	It is formulated as the ratio of credit exposure of the bank to one borrower or a group of related borrowers for unsecured loan portfolio and the maximum risk is 25 per cent. of Tier I regulatory capital.	Maximum 25%
Maximum Amount of Major Credit Risks	Major credit is defined as the sum of total exposure exceeding 10 per cent. of a bank's Tier I capital. Maximum amount of major credit risks is calculated as a ratio of the aggregate amount of major credit exposures to a bank's Tier I capital.	Maximum 8 times (800%)
Maximum Amount of Unsecured Credit and Factoring Services Risks	This ratio is intended to limit the aggregate credit exposure of a bank in connection with unsecured loans and factoring services. It is formulated as a ratio of the aggregate amount of a bank's unsecured loans to its Tier I regulatory capital.	Maximum 5%

Mandatory Reserve Deposit Requirements

In order to manage credit, currency, interest and financial risks in the banking sector, the CBU requires banks to form mandatory reserves and post them with the CBU to be held in designated accounts. Banks are required to report the calculation of reserves to the CBU promptly after the end of each month. The CBU's mandatory reserve requirements vary depending on the type of financial liabilities and range between 4 per cent. and 14 per cent. The CBU may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account with the CBU.

Audit of Banks

The audits of banks are carried out annually by auditors who are licensed to provide such inspection in accordance with the legislation of Uzbekistan. The audit includes, in particular, the assessment of the capital adequacy, classification of subsidies, securities of subsidy, risk measurement and liquidity measurement. In accordance with the Law "On Banks and Banking activities", the banks are obliged to establish and implement their own internal audit programmes in addition.

According to the legislation, each bank should establish an internal audit service and implement certain internal policies and regulations, including regulations on internal audit services and internal audit procedures.

Loan Loss Provisions

The CBU regulates the creation of provisions for loan losses under CBU standards and Uzbekistan GAAP and requires banks to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

Category	Provision
Standard	1%
Substandard	10%
Unsatisfactory	25%
Doubtful	50%
Hopeless	100%

Loans must be classified into one of categories above and provisioned accordingly on the basis of criteria laid down by the CBU, which differs from IFRS criteria. Such criteria include absence of documentation required to ascertain the borrower’s financial condition, existing non-performing or impaired loans of the borrower, negative trends in the borrower’s industry, decline in the price of collateral, etc.

Cancellation of Banking Licence

According to the Law "On the banks and banking activity", the CBU is entitled to revoke a licence for carrying out banking activities in the following cases:

- delay in performance of banking transactions for more than 12 months from the issuance date of the bank's licence, surrender of the licence, or if the bank is not operating for more than 3 months;
- violation of the terms of the bank's licence;
- violation of the requirements for the banks and their performance, which qualify as a major violation as per the Law "*On the banks and banking activity*";
- a loss equal to the 10 per cent. of the regulatory capital of the bank during each of 3 consecutive quarters or to 50 per cent. of the regulatory capital of the bank at any time;
- shareholder's decision on the voluntary liquidation of the bank;
- termination of the bank's activities as a result of the reorganisation;
- in the case of a subsidiary of a foreign bank, revocation of such foreign bank’s license;
- insolvency of the bank.

Annual Reporting

Banks shall publish annual financial statements under IFRS, upon confirmation of reliability of information provided by auditors in form and terms established by the CBU. Financial statements of banks shall include:

- consolidated balance sheet;
- consolidated statement of profits and expenses;
- consolidated statement on circulation of monetary funds;
- consolidated statement on changes in shareholder capital; and
- main policies and defining notes.

Banks shall publish annual financial statements together with the auditor’s opinion no later than two weeks before annual shareholder meetings or any other governing body. Commercial banks shall provide copies of audit opinions together with audited financial statements to the CBU within 10 days after the audit inspection. Within three days of publication of an annual financial statement, a bank shall provide a copy of that edition to the CBU.

Anti-Money Laundering

Uzbekistan has made consistent efforts to meet international standards through new legislation. However, corruption and law enforcement's susceptibility to political influence limit the effectiveness of this legislative base. Connected individuals can circumvent established AML rules through private financial institutions, shell/mailbox companies, and bribery. Uzbekistan increased prosecutions on financial crimes; nevertheless, the Government's lack of transparency makes verifying the effectiveness of law enforcement in countering money laundering difficult.

Uzbekistan is not on the Financial Action Task Force ("**FATF**") List of Countries that have been identified as having strategic AML deficiencies. The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Uzbekistan was undertaken by Eurasian Group (EAG) in 2010. According to that Evaluation, Uzbekistan was deemed Compliant for seven and Largely Compliant for 18 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for two of the six Core Recommendations. Uzbekistan is categorised by the U.S. State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

Credit Cards

The issuance, maintenance and use of bank cards (credit cards, plastic cards, etc.) in the territory of the Republic of Uzbekistan are governed by the Law "On payments and payment systems" and other regulatory and legal acts of the Republic of Uzbekistan, as well as agreements concluded between participants of interbank payment systems and rules established by payment organisations.

There are two payment systems, Uzcard and Humo, for making payments with plastic cards with microchip modules and a four-step data encryption system, which exclude counterfeit and unauthorised access by unauthorised persons. The withdrawal and crediting of customer accounts using plastic cards takes place after processing in the united Republic-wide processing centre, which protects customers and merchants from fraud and deception.

Payment Systems

The banking telecommunication network plays a key role in processing messages and transferring information required for effective operation of payment systems and regulating information flow between banks. The main distinctive feature of the banking telecommunications network is its structure, which unites branches of banks in Tashkent, regions and districts of Uzbekistan.

Due to implementation of a united balance system in real time and establishment of new branches in regional centres, the issue of BTS development in regional centres to provide high-speed data transfer was deemed necessary. To meet this need, between 2007 and 2008, specialists of the Head centre of Information of the CBU equipped regional centres and cities of the republic to provide BTS users with 192 kb/s and, in some cases, more.

In 2004, the Unified Nationwide Processing Center ("**EOPTS**") was created, which allows a single mode of banking transactions in all outlets to be carried out, regardless of which bank is served by the organisation, the service sector, or the owner of a plastic card. Currently, the EOPTS comprises 29 commercial banks, which issue the soum plastic cards. The EOPTS established an interbank payment clearing system for Soum plastic cards: Uzcard.

Uzbekistan now has a quite widely-developed system of non-cash payments based on plastic cards and remote access to banking operations through internet banking and mobile applications.

Dollarisation of Uzbek Economy

High levels of dollarisation of the economy of Uzbekistan reduces effectiveness of the monetary policy of the CBU. Furthermore, the total assets in the banking sector are 49 per cent. nominated in foreign currency. Therefore, when implementing the monetary policy, the CBU affects only 51 per cent. of the sector's assets.

To reduce the dollarisation of the sector, the CBU and the Government may implement reforms to reduce foreign borrowing in foreign currency, including government loans guaranteed by the Ministry of Finance of the Republic of Uzbekistan.

Recent and Expected Banking Reforms

Decree No. 4487

In October 2019, in line with the Strategy of Action for five priority areas of development of the Republic of Uzbekistan for 2017-2021, the Decree No. 4487 was issued in order to improve the financial stability of state-owned banks, efficiency of financing of state development programs and the UFRD funding.

In addition, as part of the on-going banking sector reforms, foreign investors have been allowed to acquire stakes not exceeding 5 per cent. of share capital of banking organisations in the Republic of Uzbekistan without obtaining CBU consent. New types of regulated loan products were introduced to the banking sector, including long-term mortgage loans for individuals.

New version of the Law "On banks and banking activities"

Furthermore, on 7 November 2019, the new version of the Law "On banks and banking activities" was adopted which is generally much more sophisticated and comprehensive. As such, the law supplemented the list of banking operations with new types of services, including fiduciary asset management, purchase and sale of refined precious metals and operations with derivative financial instruments. Furthermore, the new law introduces the concepts of banking groups and systemically important bank. In addition, the new law provides for a number of customer protection measures in the banking market, including regulations on interest and commissions caps for loans and deposits, disclosure of information, as well as the banks' liability for violation of consumer rights.

The new law also introduces a formal licensing procedure and the relevant requirements. In addition, it regulates the procedure of reorganisation and liquidation of banks, as well as expanding the list of banking transactions. The new law clarifies and discloses the forms and procedure of supervision by the CBU which now supervises:

- strategies, procedures and mechanisms used by banks to comply with the statutory requirements;
- the banks' existing and potential risks, the banks' management system and risks coverage using mechanisms of regulatory compliance, the banks' capital and liquidity; and
- compliance of banks with the statutory requirements relating to risk management and corporate governance.

A separate chapter related to the corporate governance of banks was included. Articles regarding the competence of a bank's management bodies, the rules of ethical behaviour of bank employees, and measures to prevent corruption and conflicts of interest were incorporated. Banks now have to have a reliable, clearly defined organisational structure of corporate governance, which provides for:

- transparency regarding areas of responsibility;
- effective procedures for identifying, managing, monitoring and communicating the risks to which a bank is or may be exposed (stress testing scenarios);
- the procedure for assessing capital adequacy to cover operational risk;
- relevant internal control mechanisms, including strict accounting procedures; and
- employee remuneration policies and methods that promote and comply with sound and efficient risk management.

New version of the Law "On Central Bank"

On 11 November 2019, a new version of the Law "On Central Bank" was adopted, extending the supervisory and regulatory powers of the CBU and providing it with updated instruments and authorities to monitor the financial sector of the Republic of Uzbekistan.

Law "On payments and payment systems"

The Law "On payments and payment systems" adopted on 1 November 2019 became effective on 1 February 2020. The law established regulatory framework for to the status of the payment system operators, payment organisations and the role of other persons involved in the process.

Strategy of Reforming Banking System of the Republic of Uzbekistan

The Strategy of Reforming Banking System of the Republic of Uzbekistan for 2020-2025 was approved by the President of the Republic of Uzbekistan by Decree No. 5992 dated 12 May 2020. The strategy is aimed at increasing efficiency, ensuring financial stability, decreasing the participation of the government, and increasing the accessibility and quality of financial services. Following the implementation of the reforms, the banking sector is expected to achieve the following goals by 2025:

- assets of private banks are expected to increase from 15 per cent. to 60 per cent. of the total banking assets;
- the banks' liabilities in the private sector are expected to increase from 28 per cent. to 70 per cent.;
- at least three foreign strategic investors, which have the necessary experience, knowledge, and reputation, are expected to become shareholders of at least three banks with government participation; and
- the share of non-banking financial institutions in the total volume of lending is expected to increase from the current 0.35 per cent. to 4 per cent.

Decree No. PP-4540

On 30 November 2019, the President of the Republic of Uzbekistan signed Decree No. PP-4540, transforming State Unitary Enterprise "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" into a joint stock company.

According to Decree No. PP-4540, the Bank was transformed from state unitary enterprise into a joint-stock company with the Ministry of Finance and Fund of Reconstruction and Development of the Republic of Uzbekistan being its founders and shareholders. See "*Principal Shareholders*".

The Decree No. PP-4540 prescribed key objectives of the Bank, which include:

- active financing of large investment projects in priority sectors of the economy through foreign credit lines, funds from international capital markets including eurobonds and credit linked notes issuances;
- introduction of innovative financial products to improve the quality of services and decrease time-to-market;
- provision of banking services to small businesses and private enterprises, as well as providing financial advice and information support on matters of foreign trade;
- development of retail banking services, introduction of new services, including digital ones;
- diversification of the Bank's funding base primarily by attracting long-term funds in soum;
- development of new services and expansion of trade and export financing, supporting programs for enhancing of export potential of Uzbekistan, consulting services to exporters; and
- provision of investment banking services to corporate clients, including the securities underwriting in the domestic and foreign markets.

In accordance with the Decree No. PP-4540, the Bank developed the 2023 Strategy. See "*Business–Strategy*".

The Decree No. PP-4540 also provided for the conversion of the investment company LLC NBU Invest Group into the joint-stock company NBU Invest Group, expanding its participation in capital markets, engagement in investment projects, including through acquiring equity stakes of business entities using the funds from bank profit.

According to the Decree No. PP-4540, the Bank shall also transfer to the Agency for State Assets Management of the Republic of Uzbekistan its interest in the following non-core assets:

- Taxiatash-don JSC;
- Qurilish lizing LLC;
- O'zinterimpeks JSC;
- Markazsanoateksport JSC;
- O'zprommashimpeks JSC;
- O'zmarkazimpeks JSC;
- O'zmed-lizing JSC;
- Chotqol LLC;
- Elsis Savdo JSC;
- Agrotexservis LLC; and
- O'zavializing LLC.

In addition, the Decree No. PP-4540 provides that the Bank and its subsidiary JSC NBU INVEST shall dispose of other non-core assets (being the shares and participatory interest in the charter capital of certain entities operating in foods and beverages, textile and toys industries, including Andijancharm (leather products manufacturer), OilyMuzqaymoq (ice-cream manufacturer), KinderFruits (kids foods producer), Namtex and RoyalSilk (textile manufacturer)) on the following terms:

- using the asset value step reduction mechanism (with each step being 10 per cent. of the market value), provided that the aggregate value of such discounts shall not exceed 50 per cent. of the market value of the asset and the purchase price shall not be less than its nominal value. The above mechanism shall apply to the extent no purchaser has been procured during the tender sale process provided that the tender period was not less than two months;

- using the one-off or instalment payment mechanism (except for shares) with no interest accrued on the outstanding balance of such payment, provided the repayment period does not exceed seven years and the purchaser shall not dispose such asset to, or pledge it in favour of, third parties (except for commercial banks) until the amounts outstanding are repaid in full.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes, which, subject to amendment, will be endorsed on each Definitive Note and will (subject to the provisions thereof) apply to the Global Note.

The U.S.$300,000,000 4.85 per cent. notes due 2025 (the "**Notes**") which expression includes any further Notes issued pursuant to Condition 16 and forming a single series therewith of Joint-Stock Company "National Bank for Foreign Economic Activity of the Republic of Uzbekistan" (the "**Issuer**") were authorised by a written resolution of the Management Board of the Issuer dated 7 February 2020 No. 24 and the Supervisory Board of the Issuer dated 17 February 2020 No. 10. The Notes are constituted by a trust deed to be dated 21 October 2020 (the "**Trust Deed**") made between the Issuer and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes.

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Issuer will enter into a paying agency agreement, to be dated 21 October 2020 (the "**Agency Agreement**") with the Trustee, Citibank, N.A., London Branch as principal paying agent and transfer agent (the "**Principal Paying Agent**" and the "**Transfer Agent**" and, together with any other paying agents appointed under the Paying Agency Agreement, the "**Paying Agents**") and Citigroup Global Markets Europe AG as registrar (the "**Registrar**"). The Registrar, Paying Agents and Transfer Agent are together referred to herein as the "**Agents**", which expression includes any successor or additional paying and transfer agents or registrars appointed from time to time in connection with the Notes.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours on any weekday (i) at the specified office of the Principal Paying Agent in London or (ii) electronically from the Issuer or the Principal Paying Agent. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed.

1 Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of U.S.$200,000 or integral multiples of U.S.$1,000 in excess thereof ("**authorised denominations**"). Title to the Notes shall pass by registration in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar. The Notes are represented by registered definitive Notes ("**Definitive Notes**") and, save as provided in Condition 3(c), each Definitive Note shall represent the entire holding of Notes by the same holder.

2 Status

The Notes constitute direct, general, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may arise by mandatory operation of law and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Register, Title and Transfers

(a) **Register:** The Registrar shall maintain the Register in respect of the Notes in accordance with the provisions of the Agency Agreement. The Register shall be kept at the specified office for the time being of the Registrar and shall record the names and addresses of the holders of the Notes, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the "**holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(b) **Title:** Title to the Notes will pass by and upon registration in the Register. The holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such holder.

(c) **Transfers:** Subject to Conditions 3(f) and 3(g) below, a holding of Notes may be transferred in whole or in part in an authorised denomination upon surrender (at the specified office of the Registrar or the Transfer Agent) of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the "**Transfer Form**"), duly completed and executed, at the specified office of the Transfer Agent or of the Registrar, together with such evidence as the Transfer Agent or the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. In the case of a transfer of part only of a holding of Notes represented by one Definitive Note, a new Definitive Note shall be issued to the transferee in respect of the part transferred and a further new Definitive Note in respect of the balance of the holding not transferred shall be issued to the transferor. Neither the part transferred nor the balance not transferred may be less than the minimum authorised denomination. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Definitive Note representing the enlarged holding shall only be issued against surrender of the Definitive Note representing the existing holding. No transfer of a Note will be valid unless and until entered on the Register.

(d) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of a Noteholders' option in respect of, and a partial redemption of, a holding of Notes represented by a single Definitive Note, a new Definitive Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Definitive Notes shall be issued in respect of those Notes of that holding that have the same terms. New Definitive Notes shall only be issued against surrender of the existing Definitive Notes to the Registrar or the Transfer Agent.

(e) **Delivery of New Definitive Notes:** Each new Definitive Note to be issued pursuant to Condition 3(c) or 3(d) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Change of Control Put Option Notice (as defined in Condition 7(g)) and surrender of the existing Definitive Note(s). Delivery of the new Definitive Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Change of Control Put Option Notice or Definitive Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or Change of Control Put Option Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Definitive Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/ or such insurance as it may specify. In this Condition 3(e), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar (as the case may be).

(f) **Transfer or Exercise Free of Charge:** Definitive Notes, on transfer or exercise of an option and partial redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent, but upon payment by the person making such application for transfer or exercise of an option of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the Transfer Agent may require).

(g) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of that Note, (ii) during the period of 15 days prior to (and including) any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(b), Condition 7(c) and Condition 7(d), (iii) after any such Note has been called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

(h) **Regulations concerning Transfer and Registration:** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in Schedule 1 to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Agents (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and will be available at the specified offices of the Registrar and at the specified office of the Transfer Agent.

4 Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer will not, and will ensure that none of its Material Subsidiaries will create, or permit to arise or subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest including, without limitation, anything analogous to the foregoing under the laws of any jurisdiction (a "**Security Interest**") other than a Permitted Security Interest upon the whole or any part of its property, assets or revenues, present or future, to secure any Indebtedness, unless in any such case at the same time or prior thereto, the Issuer’s obligations under the Notes and the Trust Deed are secured equally and rateably with such other Indebtedness or have the benefit of such other arrangement as (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5 Covenants

(a) **Regulatory Compliance**

(i) So long as any Note remains outstanding, the Issuer shall not permit its:

A. CBU Capital Adequacy Ratio to fall below the then applicable minimum percentage set by the CBU;

B. CBU Tier 1 Capital Adequacy Ratio to fall below the then applicable minimum percentage set by the CBU; and

C. CBU Leverage Ratio to fall below the then applicable minimum percentage set by the CBU.

(ii) The Issuer shall comply with all other financial and prudential ratios set by the CBU applicable to banks generally in Uzbekistan except where the failure to do so would not, individually or in the aggregate, have a Material Adverse Effect.

(b) **Restricted Payments:** So long as any Note remains outstanding, the Issuer will not, and will not permit any of its Subsidiaries, directly or indirectly, to make a Restricted Payment, unless at the time of and after giving effect to such Restricted Payment:

(i) no Event of Default shall have occurred and be continuing (or would result therefrom); and

(ii) the aggregate amount of such Restricted Payment made during any financial year of the Issuer would not exceed 50% of the Consolidated Net Profit for the previous financial year determined by reference to the Issuer's audited consolidated financial statements for the previous financial year delivered to the Trustee pursuant to Condition 5(c) or, with respect to the financial year ended 31 December 2019, the Issuer's audited consolidated financial statements as of and for the year ended 31 December 2019 as attached to the prospectus in relation to the Notes,

provided, however, that in any financial year where the Issuer is required under the Presidential Decree dated 29 June 2018 No. UP-5468 (the "**Decree**"), the Presidential Resolution dated 15 April 2020 No. PP-4679 (the "**Resolution**") or any Presidential or Governmental resolution having similar effect, to make any Restricted Payments to its shareholders and the mandatory amount of such Restricted Payments exceeds the threshold set out in paragraph (ii) above, such higher threshold as specified in the Decree, the Resolution or any Presidential or Governmental resolution having similar effect shall apply for the purposes of this Condition 5(b)

(c) **Financial Statements etc.:** So long as any Note remains outstanding, the Issuer shall deliver to the Trustee:

(i) not later than 180 days after the end of the Issuer's financial year, copies (in English) of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Issuer shall be accompanied by the audit report (in English) of the Auditors thereon and supplemented with information as to (A) the CBU Capital Adequacy Ratio, (B) the CBU Tier 1 Capital Adequacy Ratio and (C) the CBU Leverage Ratio; and

(ii) not later than 120 days after the end of the first six months of each of the Issuer's financial years, copies (in English) of the Issuer's unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period and all such financial statements of the Issuer shall be accompanied by the review report (in English) of the Auditors thereon and supplemented with information as to (A) the CBU Capital Adequacy Ratio, (B) the CBU Tier 1 Capital Adequacy Ratio and (C) the CBU Leverage Ratio,

in the case of each of (i) and (ii) above, together with a written notice in the form of an Officer's Certificate in the form set out in the Trust Deed stating whether since the date of the last certificate or, if none, the Issue Date an Event of Default or a Potential Event of Default shall have occurred and be continuing, describing all such Events of Default or Potential Events of Default and what action the Issuer is taking or proposes to take with respect thereto; and

(iii) the Issuer shall also post such financial statements on its website within the time periods referred to in Condition 5(c)(i) or 5(c)(ii) above, as the case may be.

(d) **Limitation on Mergers:**

(i) So long as any Note remains outstanding, the Issuer shall not (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed under applicable Uzbek law) or undergo any other type of corporate reconstruction, or (y) in a single transaction or a series of related transactions, directly or indirectly, merge, consolidate, amalgamate or otherwise combine with or into another Person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Issuer or the Group, to another Person, unless:

A. (i) the surviving or resulting entity or the transferee (the "**Successor Entity**") is the Issuer or, (ii) if not the Issuer, the Successor Entity (x) assumes all the obligations (if any) of the Issuer under the Notes and the Trust Deed, and (y) retains or succeeds to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorisations; and

B. such transaction(s) would not, individually or in the aggregate, have a Material Adverse Effect; and

C. promptly after such transaction(s), the Successor Entity certifies to the Trustee that the transaction complies with these Conditions (upon which certification the Trustee shall be entitled to rely without further enquiry and without liability to any person).

(ii) So long as any Note remains outstanding, the Issuer shall ensure that none of the Material Subsidiaries shall (x) enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms may be construed under applicable law) or undergo any other type of corporate reconstruction or (y) in a single transaction or a series of related transactions, merge, consolidate, amalgamate or otherwise combine with or into another Person or sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of such Material Subsidiary, unless:

A. (i) such Material Subsidiary is the Successor Entity or (ii) the Successor Entity (if not such Material Subsidiary) retains or succeeds to all of the rights and obligations of such Material Subsidiary under all of its material government permits, licenses, consents and authorisations (if any); and

B. such transaction(s) would not, individually or in the aggregate, have a Material Adverse Effect; and

C. promptly after such transaction(s), the Issuer (on behalf of the Successor Entity) certifies to the Trustee that the transaction complies with these Conditions (upon which certification the Trustee shall be entitled to rely without further enquiry and without liability to any person).

(iii) Notwithstanding the foregoing:

A. The Issuer may perform acts set out in Condition 5(d)(i) if required to do so by statute or a Government resolution applicable to the Issuer, provided that (i) the Issuer is the Successor Entity or (ii) if not the Issuer, the Successor Entity (x) assumes all the obligations (if any) of the Issuer under the Notes and the Trust Deed, and (y) retains or succeeds to all of the rights and obligations of the Issuer under all of its material government permits, licenses, consents and authorisations;

B. Any Material Subsidiary of the Issuer may perform acts set out in Condition 5(d)(ii) if required to do so by statute or a Government resolution applicable to the Issuer or such Material Subsidiary, provided that (i) such Material Subsidiary is the Successor Entity or (ii) the Successor Entity (if not such Material Subsidiary) retains or succeeds to all of the rights and obligations of such Material Subsidiary under all of its material government permits, licenses, consents and authorisations (if any); and

C. Any Subsidiary of the Issuer may consolidate with, merge with or into, amalgamate or otherwise combine with or sell, assign, transfer, convey or otherwise dispose of all of its assets to the Issuer or another Subsidiary of the Issuer.

(e) **Asset Sales**

(i) So long as any Note remains outstanding, the Issuer shall not, and shall ensure that none of its Material Subsidiaries shall, directly or indirectly, consummate an Asset Sale, unless:

A. the terms of such Asset Sale are substantially no less favourable to the Issuer or the relevant Subsidiary, as the case may be, than those which would be obtained in a comparable arm’s length transaction and on commercially reasonable terms; and

B. the Issuer delivers to the Trustee, in each case not later than 10 days after the consummation of such Asset Sale, a resolution (or an extract therefrom) of the appropriate decision-making body of the Issuer or the relevant Material Subsidiary (in the English language), if applicable, along with an Officer’s Certificate certifying that such Asset Sale complies with this Condition 5(e); and

(ii) The Trustee may rely on such resolution and such Officer’s Certificate referred to in this Condition 5(e) without further enquiry and will not be responsible or liable to any person for so doing.

(f) **Affiliate Transactions:** So long as any Note remains outstanding, the Issuer will not, and will not permit any of its Material Subsidiaries to, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Material Subsidiary (an "**Affiliate Transaction**") unless:

(i) the terms of the Affiliate Transaction are no less favourable to the Issuer or such Material Subsidiary than those that could be obtained at the time of the Affiliate Transaction in a comparable arm's-length transaction with a Person who is not an Affiliate of the Issuer or such Material Subsidiary; and

(ii) the Issuer delivers to the Trustee with respect to any Affiliate Transaction, or series of related Affiliate Transactions involving aggregate consideration in excess of US$100,000,000 (or, to the extent non-U.S. Dollar denominated, the U.S. Dollar Equivalent of such amount), a resolution of the Issuer's Board of Directors (in the English language) along with an Officer’s Certificate certifying that such Affiliate Transaction complies with this Condition 5(f) and that such Affiliate Transaction has been approved by the Issuer’s meeting of shareholders, a majority of the disinterested members of the Issuer's Board of Directors or such Material Subsidiary's Board of Directors, or another competent body of such Material Subsidiary authorised to approve such Affiliate Transaction, (or, in the event there is only one disinterested member of the Issuer's or Material Subsidiary's Board of Directors or another competent body of such Material Subsidiary, approved by such disinterested member); provided, however, that the provisions of these Conditions 5(f)(i) and 5(f)(ii) shall not apply to:

A. any Affiliate Transaction where the Affiliate in question is an Agency of the Republic of Uzbekistan or a Person which is a Subsidiary of, or is otherwise controlled by an Agency of the Republic of Uzbekistan;

B. any employment agreement, employee compensation arrangements, consulting agreement, employee benefit plan, officer and director indemnification agreement or any similar arrangement entered into by the Issuer or any of its Material Subsidiaries in the ordinary course of business and compensation (including bonuses and equity compensation) paid to and other benefits (including retirement, health and other benefit plans) and indemnification arrangements provided on behalf of directors, officers, consultants and employees of the Issuer or any of its Material Subsidiaries;

C. transactions between or among or solely for the benefit of the Issuer and/or its Subsidiaries;

D. any issuance of Capital Stock of the Issuer to Affiliates of the Issuer or the receipt of capital contributions by the Issuer from Affiliates of the Issuer;

E. Restricted Payments permitted to be made pursuant to Condition 5(b); or

F. agreements and arrangements, and transactions pursuant thereto, existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof; provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are, on the whole, no less favourable to the Issuer and its Material Subsidiaries, as applicable, than the original agreement or arrangement as in effect on the Issue Date.

(iii) The Trustee may rely on such resolution and such Officer's Certificate referred to in this Condition 5(f) without further enquiry and will not be responsible or liable to any person for so doing.

(g) **Maintenance of Authorisations**: So long as any Note remains outstanding, the Issuer shall, and shall ensure that each of its Material Subsidiaries will, take all action which may be necessary to ensure the obtaining and continuance of, all consents, licences, approvals and authorisations required in or by the laws of the Republic of Uzbekistan or any relevant jurisdiction or Agency having regulatory authority in respect of the Issuer or any Material Subsidiary of the Issuer in order to carry out its business activities, save to the extent that failure to do so would not or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(h) **Change of Business**: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not make any material change to the general nature of the Issuer's business from that carried on at the Issue Date.

6 Interest

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the rate of 4.85 per cent. per annum, payable semi-annually in arrear on 21 April and 21 October in each year (each an "**Interest Payment Date**"), commencing on 21 April 2021 and will amount to U.S.$24.25 per Calculation Amount (as defined below). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Definitive Note representing such Note, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Note shall be calculated per U.S.$1,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

7 Redemption and Purchase

(a) **Final redemption:** Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 21 October 2025 (the "**Maturity Date**"). The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 7.

(b) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 17 and to the Trustee and Agents (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if (i) immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment has become or becomes effective on or after the Issue Date and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (x) an Officer's Certificate of the Issuer stating that the Issuer is entitled to effect such redemption and that the conditions precedent to the right of the Issuer to so redeem set out in (i) and (ii) above have occurred and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept and rely absolutely, without further enquiry and without liability to any person, upon such opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(c) **Redemption at Make Whole:** At any time prior to the date falling three months prior to the Maturity Date the Issuer may, at its option, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (the "**Call Option Notice**") in accordance with Condition 17 and to the Trustee and the Agents redeem the Notes in whole but not in part, at the price which shall be the following (as calculated by the Issuer):

(i) the aggregate principal amount of the outstanding Notes; plus

(ii) interest and other amounts that may be due pursuant to these Conditions (if any) accrued but unpaid to but excluding the date on which the call option is to be settled (the "**Call Settlement Date**"); plus

(iii) the Make Whole Premium.

The Call Option Notice shall specify the Call Settlement Date.

For the purposes of this Condition 7(c):

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the present value of the Notes at the Call Settlement Date, plus the present value of any required interest payments that would otherwise accrue and be payable on such Notes from the Call Settlement Date through to the Maturity Date, in each case calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Premium will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Maturity Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least three business days (but not more than five business days) prior to the Call Settlement Date and shall notify the Noteholders (in accordance with Condition 17) and the Trustee and the Agents thereof not less than two business days prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith); provided, however, that if the period from the Call Settlement Date to the Maturity Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Maturity Date is less than one year, the weekly average yield on actually traded

United States Treasury securities adjusted to a constant maturity of one year shall be used.

(d) **Optional Redemption at Par**: the Issuer may, at any time on or after the date falling three months prior to the Maturity Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")) in accordance with Condition 17 and to the Trustee and Agents, redeem the Notes in whole or in part, at the principal amount thereof, together with interest and additional amounts (if any) accrued but unpaid to but excluding the Par Optional Prepayment Date.

In the case of a partial redemption the notice to Noteholders shall also specify the nominal amount of Definitive Notes drawn and the serial numbers of the Definitive Notes to be redeemed, which shall have been drawn in such place as the Issuer (acting reasonably) shall determine and in such manner (acting reasonably) as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Purchase:** the Issuer and its Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a).

(f) **Cancellation:** All Definitive Notes representing Notes purchased pursuant to this Condition 7 shall be either cancelled forthwith, held or, to the extent permitted by law, resold. Any Definitive Notes so cancelled may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

(g) **Redemption at the option of Noteholders upon a Change of Control:** If at any time while any Note remains outstanding a Change of Control occurs, the Issuer shall, at the option of the holder of any such Note (the "**Change of Control Put Option**"), redeem or purchase such Note on the Change of Control Put Date (as defined below) at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Control Put Date.

If a Change of Control occurs then, within 14 days of the occurrence of the Change of Control, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 17 specifying the nature of the Change of Control and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, a holder of Notes must deliver at the specified office of any Paying Agent, on any business day (being a day on which commercial banks are open for business in the city where such Paying Agent has its specified office) falling within the period commencing on the date on which the Change of Control Notice is given to Noteholders as required by this Condition 7(g) and ending 60 days after such date (the "**Change of Control Put Period**"), a duly signed and completed notice of exercise in the form obtainable from any specified office of any Paying Agent (a "**Change of Control Put Option Notice**") and in which the holder must specify a U.S. Dollar bank account to which payment is to be made under this paragraph accompanied by the applicable Definitive Note or Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Control Put Option Notice, be held to its order or under its control.

The Issuer shall redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Control Put Option Notice on the date (the "**Change of Control Put Date**") 14 days after the expiration of the Change of Control Put Period unless previously redeemed or purchased and cancelled. A Change of Control Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Control Put Option Notice and require the applicable Definitive Note or Notes to be returned.

For the purposes of this Condition 7(g), a "**Change of Control**" will occur upon the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Republic of Uzbekistan ceases to beneficially own (directly or indirectly) 50% plus one share of the issued and outstanding voting Capital Stock of, or otherwise to control, the Issuer.

8 Payments

(a) **Method of Payment**

(i) Payments of principal shall be made (subject to surrender of the relevant Definitive Notes at the specified office of any Transfer Agent or of the Registrar if no further payment falls to be made in respect of the Notes represented by such Definitive Notes) in the manner provided in paragraph (ii) below.

(ii) Interest on each Note shall be paid to the person shown on the Register at the close of business on the business day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made by transfer to an account in U.S. Dollars maintained by the payee with a bank.

(iii) If the amount of principal being paid upon surrender of the relevant Definitive Note is less than the outstanding principal amount of such Definitive Note, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested by the Issuer or a Noteholder) issue a new Definitive Note with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of interest so paid.

(b) **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(c) **Agents:** The initial Agents and their initial specified offices are listed below. The Issuer reserves the right (subject to prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed)) to vary or terminate the appointment of all or any of the Agents at any time (provided that no Agent shall be responsible for any costs or liabilities occasioned by any such termination) and appoint additional or other payment or transfer agents, provided that they will maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) such other agents as may be required by any other stock exchange on which the Notes may be listed, in each case, as approved by the Trustee (such approval not to be unreasonably withheld or delayed). Notice of any such change will be provided as described in Condition 17 below.

(d) **Delay in Payment:** Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Note if the due date is not a business day, or if the Noteholder is late in surrendering or cannot surrender its Definitive Note (if required to do so).

(e) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 8, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Principal Paying Agent is located and on which foreign exchange transactions may be carried on in U.S. Dollars in New York City.

9 Taxation

All payments of principal, interest and other amounts in respect of the Notes by the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within the Republic of Uzbekistan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(i) held by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Republic of Uzbekistan other than the mere holding of such Note; or

(ii) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days.

Notwithstanding any other provision of the Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**Relevant Date**" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders in accordance with Condition 17 that, upon further surrender of the Definitive Note representing such Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such surrender.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition. If the Issuer becomes subject in respect of payments of principal or interest on the Notes to any taxing jurisdiction other than (or in addition to) the Republic of Uzbekistan, references in these Conditions to the Republic of Uzbekistan shall be construed as references to such other jurisdiction.

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice to the Issuer that the Notes are, and they shall immediately become, due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each, an "**Event of Default**"):

(a) the Issuer fails to pay any amounts payable on any of the Notes when due and such failure continues for a period of seven days in relation to principal and 14 days in relation to interest; or

(b) the Issuer does not perform or comply with any of its other obligations in the Notes or the Trust Deed which default (i) is (in the opinion of the Trustee) incapable of remedy and, in the case of a breach of an obligation under the Trust Deed, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders or (ii) if in the opinion of the Trustee capable of remedy is not remedied within 30 days or such longer period as the Trustee may agree after notice of such default having been given to the Issuer by the Trustee in writing requesting the same to be remedied; or

(c) (i) any other present or future Indebtedness of the Issuer or any of its Material Subsidiaries becomes due and payable prior to its stated maturity by reason of any default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness, provided that the aggregate amount of the relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds U.S.$40,000,000 (or, to the extent non-U.S. Dollar denominated, the U.S. Dollar Equivalent of such amount); or

(d) the occurrence of any of the following events:

  (i) (A) the Issuer or any Material Subsidiary of the Issuer seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment to it of a liquidator or a similar officer; (B) the presentation or filing of a petition in respect of the Issuer or any Material Subsidiary of the Issuer in any court or before any agency for its bankruptcy, insolvency, dissolution or liquidation which, in the case of a petition presented or filed by a Person other than the Issuer, or such Material Subsidiary, as the case may be, is not dismissed or discharged within 60 days from the date of presentation or filing; (C) the institution of supervision, external management, examinership or bankruptcy management to the Issuer or any Material Subsidiary of the Issuer; (D) the convening of a meeting of creditors generally of the Issuer or any Material Subsidiary of the Issuer for the purposes of considering an amicable settlement with its creditors generally; and/or (E) any extra judicial liquidation or analogous act in respect of the Issuer or any Material Subsidiary by any Agency in the Republic of Uzbekistan (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring permitted by Condition 5(d)); or

  (ii) the Issuer or any of its Material Subsidiaries: (A) fails or is unable or admits its inability to pay its debts generally as they become due; (B) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or to the appointment of a custodian of it or of a substantial part of its property;

(iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or for the appointment of a custodian in respect of the Issuer or any Material Subsidiary of the Issuer or a substantial part of their respective property and such order or decree remains undischarged for a period of 30 days;

(iv) the shareholders of the Issuer approve any plan for the liquidation or dissolution of the Issuer (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring permitted by Condition 5(d)); or

(v) the revocation, suspension or other loss of the banking licence of the Issuer or, if applicable, any Material Subsidiary of the Issuer (other than in connection with any reissue of the banking licence).

(e) a judgment, order, decree of a court or other appropriate law enforcement body from which no further appeal or judicial review is permissible under applicable law for the payment of any amount in excess of U.S.$40,000,000 (or, to the extent non-U.S. Dollar denominated, the U.S. Dollar Equivalent of such amount) is rendered against the Issuer or any of its Material Subsidiaries and continues unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment or on which such judgment or order otherwise becomes enforceable; or

(f) an order of a court of competent jurisdiction is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring permitted by Condition 5(d)) which event in the case of a Material Subsidiary of the Issuer is in the opinion of the Trustee materially prejudicial to the interests of the Noteholders; or

(g) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of the Republic of Uzbekistan, is not taken, fulfilled or done; or

(h) the validity of the Notes or the Trust Deed, as the case may be, is contested by the Issuer, or the Issuer shall deny any of its obligations thereunder or it is, or will become, unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed or any of such obligations shall become unenforceable or cease to be legal, valid and binding; or

(i) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) and (f) above.

11 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) from the appropriate Relevant Date in respect of them.

12 Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

13 Meetings of Noteholders, Modification and Waiver

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by the Trustee upon receipt of a written request by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding (subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction against all costs and expenses). The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes or (v) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than two-thirds in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification and Waiver:** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

(c) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

14 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions and/or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes, but it need not take, nor shall the Trustee be bound to take or omit to take, any such steps, actions and/or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified and/or provided with security and/or prefunded in each case to its satisfaction. No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trust Deed also contains a provision permitting the Trustee to request a compliance certificate from the Issuer related to compliance with the Conditions in the circumstances described in the Trust Deed. The Trustee may rely without liability to Noteholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer and the Noteholders.

16 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall be constituted by a deed supplemental to the Trust Deed.

17 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange, notices will be published in a manner which complies with the rules and regulations of the Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

18 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer, shall indemnify each Noteholder on the written demand of such Noteholder, addressed and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

20 Governing Law

The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with any of them are governed by, and shall be construed in accordance with, English law.

21 Arbitration, Consent to Enforcement and Waiver of Immunity

(a) **Arbitration:** Any dispute arising out of or connected with the Notes and the Trust Deed, including a dispute as to the validity or existence of the Notes and the Trust Deed and/or this Condition 21 or any non-contractual obligation arising out of or in connection with the Notes and the Trust Deed (a "**Dispute**"), shall be resolved by arbitration whose seat shall be in London, England, conducted in the English language by three arbitrators, pursuant to the rules of the London Court of International Arbitration ("**LCIA**") (such arbitration to also be administered by the LCIA in accordance with those rules), which rules are deemed to be incorporated by reference into this Condition with the exception that any provision of such rules relating to the nationality of an arbitrator shall, to that extent, not apply and save that, unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If the third arbitrator is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, the third arbitrator shall be chosen by the LCIA. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(b) In any such arbitration, in the event of a declared public health emergency by either the World Health Organisation (the "**WHO**") or a national government, as a consequence of which it is inadvisable or prohibited for the parties and/or their legal representatives to travel to, or attend any hearing ordered by the tribunal, the following shall apply:

   (i) any such hearing shall be held via video or telephone conference upon the order of the tribunal;

   (ii) the parties agree that no objection shall be taken to the decision, order or award of the tribunal following any such hearing on the basis that the hearing was held by video or telephone conference; and

(iii) in exceptional circumstances only the tribunal shall have the discretion to order that a hearing shall be held in person, but only after full and thorough consideration of the prevailing guidance of the WHO and any relevant travel or social distancing restrictions or guidelines affecting the parties and/or their legal representatives and the implementation of appropriate mitigation.

If this Condition 21(b) is applied, the Trustee and the Agents shall not be responsible for any loss, liability, cost, fee, claim, action, demand, expense or inconvenience caused to any person as a result thereof.

(c) **Agent for Service of Process:** The Issuer has appointed the Ambassador of the Republic of Uzbekistan to the Court of St. James's from time to time, at the Embassy of the Republic of Uzbekistan, currently located at 41 Holland Park, London, W11 3RP as its agent in England to receive service of process in any Proceedings in England in connection with the Notes and the Trust Deed.

(d) **Consent to enforcement etc.:** The Issuer consents generally in respect of any Disputes to the giving of any relief or the issue of any process in connection with such Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any judgment or award which may be made or given in such Disputes.

(e) **Waiver of immunity:** To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before the making of a judgment or an award or otherwise) or other legal process including in relation to the enforcement of a judgment or award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its respective assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity.

22 Definitions

In these Conditions, the following terms shall have the following meanings:

"**Affiliate**", in respect of any specified Person, means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, "**control**", as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "**controlling**", "**controlled by**" and "**under common control with**" shall have correlative meanings;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, ministry, minister, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Asset Sale**" means

(a) the sale, lease, conveyance or other disposition of any tangible or intangible assets (other than cash) or rights or revenues of the Issuer or a Material Subsidiary of the Issuer in one or more transactions or series of transactions (whether related or not);

(b) the issuance of Capital Stock in any Material Subsidiary of the Issuer or the sale of Capital Stock in any of its Material Subsidiaries.

Notwithstanding the foregoing, none of the following items will be deemed to be an Asset Sale:

(a) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than 10.0 per cent. of the consolidated total assets of the Issuer (as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c);

(b) any sale or other disposition of Capital Stock in, or assets of, a Subsidiary not involved in carrying out banking business or any sale or other disposition of other assets that are no longer useful in the conduct of the business of the Issuer or its Subsidiaries;

(c) a transfer of assets between or among the Issuer and its Subsidiaries;

(d) any sale, lease, conveyance or other disposition of any assets of the Issuer or any of its Subsidiaries or property pledged as collateral by or to the Issuer or any of its Subsidiaries in the ordinary course of the Issuer’s or, as the case may be, the relevant Subsidiary’s business;

(e) an issuance or other disposition of Capital Stock by a Material Subsidiary of the Issuer to the Issuer or to a Subsidiary of the Issuer;

(f) the creation of a Security Interest;

(g) a payment or other disposition that does not violate Condition 5(b) and Condition 5(d);

(h) the sale or other disposition of assets received by the Issuer or any of its Material Subsidiaries in compromise or settlement of claims of the Issuer or any of its Material Subsidiaries and the write-off of any financial assets which, in accordance with the IFRS, are eligible for being treated as irrecoverable;

(i) the sale, transfer or other disposition of any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Issuer or any of its Material Subsidiaries whereby all payment obligations are to be discharged primarily from such assets or revenues, provided that the value of such assets or revenues, asset-backed financing, or similar financing structures, when aggregated with the value of all assets or revenues subject to a Security Interest permitted under paragraph (h) of the definition of "Permitted Security Interest", does not, at any time, exceed 25% of the Group’s total loans to customers before allowance for loan impairment as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c); and

(j) any sale or other disposition of non-core assets pursuant to, or in connection with, the Presidential Decree.

"**Auditors**" means the auditors for the time being of the Issuer or, if they are unable or unwilling promptly to carry out any action requested of them under these Conditions, such other firm of accountants of international standing as may be selected by the Issuer for the purpose and notified in writing to the Trustee;

"**Board of Directors**" means with respect to the Issuer, its Supervisory Council; with respect to a corporation, the board of directors or managers of the corporation and, in the case of any other corporation having both a supervisory board and an executive or management board, the executive or management board (except where the supervisory board is expressly indicated); with respect to a partnership, the board of directors of the general partner of the partnership; and with respect to any other Person, the board or committee of such Person serving a similar function;

"**business day**" means (except where expressly defined otherwise) a day which banks and foreign exchange markets are open for business in the place in which the specified office of the

Principal Paying Agent is located and on which foreign exchange transactions may be carried on in U.S. Dollars in New York City;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into or exchangeable for such Capital Stock;

"**CBU**" means the Central Bank of Uzbekistan;

"**CBU Capital Adequacy Ratio**" means a ratio of the Issuer's CBU Regulatory Capital to the CBU Risk Weighted Assets calculated by reference to the Uzbek accounting standards;

"**CBU Capital Regulation**" means the Regulation of the Central Bank of Uzbekistan No. 14/3 dated 13 June 2015 (registered with the Ministry of Justice of the Republic of Uzbekistan No. 2693 dated 6 July 2015), as amended, supplemented or restated or superseded from time to time;

"**CBU Leverage Ratio**" means a ratio of the Issuer's CBU Tier 1 Capital to total assets and off-balance sheet instruments and derivative (financial) instruments less intangible assets and the sum of all investments in capital of unconsolidated economic entities, including debt obligations, which form capital of such economic entities and capital investments of other banks, calculated in accordance with the CBU Capital Regulation;

"**CBU Regulatory Capital**" means the regulatory capital (*regulyativ kapital*) as such term is defined in the CBU Capital Regulation;

"**CBU Risk-Weighted Assets**" means the aggregate of balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the CBU Capital Regulation;

"**CBU Tier 1 Capital**" means the Tier 1 Capital (*regulyativ kapital I darajali kapital*) as such term is defined in the CBU Capital Regulation;

"**CBU Tier 1 Capital Adequacy Ratio**" means a ratio of the Issuer's CBU Tier 1 Capital to the CBU Risk-Weighted Assets;

"**Code**" means the United States Internal Revenue Code of 1986, as amended;

"**control**" shall have the meaning provided in the definition of "Affiliate" and "**controlled**" shall be construed accordingly;

"**Consolidated Net Profit**" means, for any period, the net profit of the Group for such period, on a consolidated basis, determined in accordance with IFRS;

"**Deferred Capital Stock**" means a dividend or distribution declared by the Issuer and which a shareholder of the Issuer has irrevocably instructed the Issuer to retain and apply towards consideration for any future Capital Stock to be issued by the Issuer to such shareholder;

"**Fair Market Value**" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by an Independent Appraiser (should one be engaged without any obligation to do so) and/or the Board of Directors of the Issuer or the relevant Material Subsidiary (or the relevant competent management body or officer of such Material Subsidiary) whose determination shall be conclusive;

"**Group**" means the Issuer and its consolidated Subsidiaries taken as a whole;

"**guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

The term "guarantee" used as a verb has a corresponding meaning. The term "guarantor" shall mean any Person guaranteeing any obligation.

"**Hedging Obligations**" means, with respect to any Person, the obligations of such Person under:

(a) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements;

(b) other agreements or arrangements designed to protect such Person against fluctuations in interest rates; and

(c) any foreign currency futures contract, option or similar agreement or arrangement designed to protect such Person against fluctuations in foreign currency rates;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards), issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time);

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all Lease Obligations of such Person;

(d) all indebtedness of other Persons guaranteed or indemnified by such Person, to the extent such indebtedness is guaranteed or indemnified by such Person;

(e) to the extent not otherwise included in this definition, all Hedging Obligations of such Person, provided, however, that if and to the extent that netting is permitted by applicable laws (including the laws of the Republic of Uzbekistan), the amount of any such Hedging Obligations for the purposes of this paragraph (e) shall be equal at any time to the net payments under such agreement or arrangement giving rise to such Hedging Obligation that would be payable by such Person at the termination of such agreement or arrangement;

(f) any amount raised by acceptance under any acceptance credit facility; and

(g) any amount raised under any other transaction having the economic or commercial effect of a borrowing, and the amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations, as described above, and with respect to contingent obligations, as described above, the maximum liability which would arise upon the occurrence of the contingency giving rise to the obligation;

"**Independent Appraiser**" means any of PricewaterhouseCoopers, KPMG, Deloitte & Touche, Ernst & Young or such investment banking, accountancy or appraisal firm generally recognised in the relevant jurisdiction selected by the competent management body of the Issuer or the relevant Subsidiary, *provided* it is not an Affiliate of the Issuer, or any Subsidiary;

"**Issue Date**" means 21 October 2020;

"**Lease Obligation**" means, at the time any determination thereof is to be made, the amount of the liability under any lease or hire purchase contract that would at that time be required to be treated as a balance sheet liability in accordance with IFRS;

"**Material Adverse Effect**" means a material adverse effect on (a) the business, condition (financial or otherwise), results of operations or prospects of the Issuer or the Group, (b) the ability of the Issuer to perform its obligations under the Trust Deed and the Notes or (c) the validity or enforceability of the Trust Deed and the Notes;

"**Material Subsidiary**" means any Subsidiary of the Issuer:

(a) which, according to the most recent audited consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c) accounted for more than 10% of the profit before income tax expense of the Group or which, according to the most recent audited consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c), was the owner of more than 10% of the consolidated total assets of the Group; or

(b) to which are transferred substantially all of the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction).

The Issuer does not have any Material Subsidiaries as of the Issue Date;

"**Officer**" means the chief financial officer, the chairman or the first deputy chairman of the Board of Directors, the chairman of the Management Board or other person holding a corresponding or similar position of responsibility;

"**Officer's Certificate**" means a certificate executed on behalf of the Issuer by one Officer;

"**Permitted Security Interest**" means:

(a) any Security Interest in existence on the Issue Date;

(b) any Security Interests granted by any Material Subsidiary of the Issuer in favour of the Issuer or any Material Subsidiary of the Issuer;

(c) any Security Interests imposed or required by statute, operation of law or any Government resolution;

(d) any Security Interests securing Indebtedness of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Material Subsidiary of the Issuer or becomes a Material Subsidiary of the Issuer, provided that such Security Interests (i) were not created in contemplation of such merger or consolidation or event; and (ii) do not extend to any assets or property of the Issuer or any Material Subsidiary of the Issuer (other than those of the Person acquired and its Material Subsidiaries (if any));

(e) any Security Interests already existing on assets or property acquired or to be acquired by the Issuer or a Material Subsidiary of the Issuer, provided that such Security Interests were not created in contemplation of such acquisition and do not extend to any other assets or property (other than the proceeds of such acquired assets or property);

(f) any netting or set-off arrangement entered into by the Issuer or any of its Material Subsidiaries in the ordinary course of its banking business for the purpose of netting debit and credit balances;

(g) Security Interests arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(h) any Security Interest upon, or with respect to, any present or future assets or revenues of the Issuer or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest, are to be discharged solely from such assets or revenues, provided that the value of assets or revenues subject to such Security Interest when aggregated with the value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Condition 5(e), does not, at any such time, exceed 25% of the Group's total loans to customers before allowance for impairment as calculated by reference to the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c);

(i) any Security Interest granted upon or with regard to any property hereafter acquired by the Issuer or any Material Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property;

(j) any Security Interest arising in the ordinary course of banking business including without limitation: Security Interests pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Material Subsidiary of the Issuer), in connection with (x) contracts entered into substantially simultaneously for sales and purchases at market prices of securities or precious metals (y) the establishment of margin deposits and similar securities in connection with trading in securities or precious metals or (z) the Issuer's foreign exchange dealings or other proprietary trading activities including, without limitation in the case of (x), (y) and (z), Repos;

(k) any Security Interest in respect of Hedging Obligations entered into for non-speculative purposes;

(l) any Security Interest on property acquired (or deemed to be acquired) under a Lease Obligation, or claims arising from the use or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease;

(m) Security Interests arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

(n) any Security Interests arising in relation to any Project Finance Debt;

(o) easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Security Interest arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer or any of the Material Subsidiaries and existing, arising or incurred in the ordinary course of business; and

(p) any Security Interests not otherwise permitted by the preceding paragraphs (a) through (o), provided that the aggregate principal amount of the Indebtedness secured by such Security Interests does not at any time exceed 15 per cent. of the Group's consolidated total assets as published in the most recent consolidated financial statements of the Issuer delivered to the Trustee pursuant to Condition 5(c);

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, fund, unincorporated organisation, limited liability company or government or other entity;

"**Potential Event of Default**" means an event or circumstance which, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10, would constitute an Event of Default;

"**Preferred Stock**", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"**Presidential Decree**" means the decree of the President of the Republic of Uzbekistan dated 30 November 2019 No. PP-4540 (as in effect as of the Issue Date);

"**Project Finance Debt**" means any Indebtedness incurred in relation to any asset solely for purposes of financing the whole or any part of the acquisition, creation, construction, improvement or development of such asset where the financial institutions to which such indebtedness is owed have recourse solely to the applicable project borrower (where such project borrower is formed solely or principally for the purpose of the relevant project) and/or to such asset (or any derivative asset thereof) or any other similar non-recourse Indebtedness which is properly regarded as project finance debt;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for purposes of this definition, the term "securities" means any Capital Stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any private or public company, any government or Agency or instrumentality thereof or any supranational, international or multilateral organisation.

"**Restricted Payment**" with respect to the Issuer or any of its Subsidiaries means:

(a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock, Deferred Capital Stock or in options, warrants or other rights to purchase such stock, (B) dividends or distributions payable solely to the Issuer or a Subsidiary of the Issuer and (C) pro rata dividends or other distributions made by a Subsidiary of the Issuer that is not a Wholly-Owned Subsidiary of the Issuer to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Subsidiary) or of any Capital Stock of a Subsidiary of the Issuer held by any Affiliate of the Issuer (other than by a member of the Group), including in connection with any merger or consolidation and including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Issuer that is not Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of Indebtedness of such Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the first anniversary of the Maturity Date);

(c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity or scheduled repayment of any Subordinated Obligations of the Issuer or any Subsidiary of the Issuer (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time).

"**Stock Exchange**" means the London Stock Exchange plc;

"**Subordinated Obligations**" means, with respect to any Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter incurred) which is subordinate or junior in right of payment to the Notes pursuant to a written agreement to that effect;

"**Subsidiary**" means, in relation to any Person (the "**first person**"), at any particular time, any other Person (the "**second person**") (i) which the first person controls or has the power to control and (ii) which is (or is required under IFRS to be) consolidated in or with the financial statements of the first person;

"**Taxes**" means any taxes, levies, duties, imports or other charges or withholding of a similar nature no matter where arising (including interest and penalties thereon and additions thereto);

"**U.S. Dollars**", "**dollars**" or the sign "**$**" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts;

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with the applicable foreign currency as quoted by Reuters at approximately 11:00 am (New York time) on the date not more than two Business Days prior to the date of determination; and

"**Wholly - Owned Subsidiary**" of any specified Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which shall at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES WHEN IN GLOBAL FORM

The Notes will be evidenced on issue by the Global Note, deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary.

Beneficial interests in the Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*–Book-entry Procedures for the Global Note*".

By acquisition of a beneficial interest in the Global Note, the purchaser thereof will be deemed to represent, among other things, that it is purchasing such beneficial interests in an offshore transaction in accordance with Rule 903 of Regulation S.

Beneficial interests in the Global Note will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement, and the Notes will bear the legends set forth thereon regarding such restrictions.

Save in the case of the issue of replacement Notes pursuant to Condition 12, the Issuer, the Transfer Agents and the Registrar shall make no charge to the holders for the registration of any holding of Notes or any transfer thereof or for the issue of any Notes or for the delivery thereof at the specified office of a Transfer Agent or the Registrar or by uninsured post to the address specified by the holder, but such registration, transfer, issue or delivery shall be effected against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration, transfer, issue or delivery. Except in the limited circumstances described below, owners of beneficial interests in the Global Note will not be entitled to receive physical delivery of Note certificates in definitive form (the "**Definitive Notes**"). The Notes are not issuable in bearer form.

Amendments to Conditions

The Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Note will be made to the person who appears on the register of Noteholders at the close of business on the Record Date as holder of the Global Note against presentation and (if no further payment falls to be made in respect of the relevant Notes) surrender of the Global Note to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose), which shall endorse such payment or cause such payment to be endorsed in the appropriate schedule to the Global Note (such endorsement being prima facie evidence that the payment in question has been made). Interest in respect of the Notes represented by the Global Note will be paid from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Note, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Notices

So long as the Notes are evidenced by the Global Note and the Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication to entitled account holders rather than in the manner specified in the Conditions and shall be deemed to be given to holders of interests in the Global Note with the same effect as if they had been given to such Noteholder in accordance with the Conditions; provided, however, that as long as the Notes are listed on the London Stock Exchange, all notices will also be given in accordance with the rules of the London Stock Exchange. Any such notice will be deemed to have been given on the day the same has been delivered to the relevant clearing systems.

Record Date

Notwithstanding Condition 8(a)(ii), "Record Date" shall mean the Clearing System Business Day before the relevant due date for payment, where "Clearing System Business Day" means Monday to Friday inclusive, except 25 December and 1 January.

Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the Global Note may be exchangeable.

Trustee's Powers

Notwithstanding anything contained in the Trust Deed, in considering the interests of Noteholders while the Global Note is held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests, and treat such accountholders, as if such accountholders were the holders of the Global Note.

Issuer's Option

So long as the Notes are evidenced by the Global Note and the Global Note is held by or on behalf of a clearing system, any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders and the relevant clearing systems (or procuring that such notice is given on its behalf) within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and, accordingly, no drawing of Notes shall be required. If any option of the Issuer is exercised in respect of some but not all of the Notes, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

Noteholder's Option

So long as the Notes are evidenced by the Global Note and such Global Note is held by or on behalf of a clearing system, the exercise of the option of Noteholders provided for in Condition 7(g) will be subject to the normal rules and operating procedures of such clearing system.

Electronic Consent and Written Resolution

While the Global Note is registered in the name of any nominee for a clearing system, then:

(a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding (an "**Electronic Consent**" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting in respect of which the special quorum provisions specified in the Notes apply, take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders whether or not they participated in such Electronic Consent; and

(b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing system with entitlements to the Global Note and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Exchange for Definitive Notes

Exchange

The Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent.

The Registrar will not register the transfer of, or exchange of interests in, the Global Note for Definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon.

Book-entry Procedures for the Global Note

For each series of Notes evidenced by the Global Note, custodial and depositary links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*–Settlement and Transfer of Notes*".

Euroclear and Clearstream, Luxembourg

The Global Note will have an ISIN and Common Code. The Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depositary. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in the Global Note directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**") through organisations that are accountholders therein.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or holders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in the Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of the Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes unless and until interests in the Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than two business days following the date of pricing. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisors.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident of a purchase of Notes, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of Notes. The following is a general description of Uzbekistan withholding tax laws relating to the Notes as in effect on the date hereof, and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

Pursuant to the Tax Code, any amount of principal, interest or premium payable under international bonds (such as the Notes) by an Uzbek legal entity to non-resident or resident legal entities or individuals is not subject to any withholding tax in Uzbekistan.

If interest payments in respect of any Notes are subject to Uzbekistan withholding tax, the Bank shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such withholding been required as more fully described in Condition 9. The Tax Code does not permit contractual provisions imposing on residents of the Republic of Uzbekistan an obligation to bear expenses in relation to tax obligations of foreign natural persons who are Non-Uzbek natural persons. Whilst tax gross-up provisions of Condition 9 are expressed to impose on the Bank an obligation to pay additional amounts rather than to bear expenses in relation to tax obligations of the Non-Uzbek natural persons, there is no assurance that an Uzbek court will agree with this interpretation and, therefore, there is a risk that such gross-up provisions may not be enforceable. So far as the Bank is aware, there has been no court case in the Republic of Uzbekistan in which tax gross-up or similar provisions were considered.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Bank GPB International S.A., Natixis and SMBC Nikko Capital Markets Limited (the "**Joint Bookrunners**") have, pursuant to a Subscription Agreement dated 19 October 2020 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at the issue price of 100 per cent. of their principal amount.

The Issuer has agreed to pay to the Joint Bookrunners a combined management, underwriting and selling commission in respect of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has in the Subscription Agreement agreed to indemnify the Joint Bookrunners against certain liabilities incurred in connection with the issue of the Notes.

Each of the Joint Bookrunners and its respective affiliates may, from time to time in the ordinary course of their respective businesses, engage in further transactions with, and perform services for, the Issuer and its affiliates. In particular, the Joint Bookrunners and their respective affiliates have performed and expect to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non public market financing for, and enter into derivative transactions with, the Issuer or its affiliates (including their respective shareholders) and for which they will receive customary fees.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Bookrunner has severally represented that it has not offered or sold, and agrees that it will not offer or sell, the Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S. Accordingly, neither such Joint Boorkunner, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

Each Joint Bookrunner severally represented that it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

United Kingdom

Each Joint Bookrunner has severally represented, warranted and agreed that:

(a) **Financial promotion**: it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) **General compliance**: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and U.K. Retail Investors

Each Joint Bookrunner has severally represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or in the U.K. For these purposes the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the IDD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Republic of Uzbekistan

Each Joint Bookrunner has severally represented, warranted and undertaken with the Issuer and each other Joint Bookrunner that it has not offered and will not offer the Notes for circulation, distribution, placement, sale or purchase on the territory of the Republic of Uzbekistan.

Singapore

Each Joint Bookrunner has acknowledged that this Prospectus has not been registered as a prospectus with the MAS. Accordingly, each Joint Bookrunner has severally represented, warranted and undertaken with the Issuer that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

General

Neither the Issuer nor any Joint Bookrunner has made any representation that any action has been or will be taken in any jurisdiction by the Joint Bookrunners or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Bookrunner will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

INDEPENDENT AUDITORS

The Group's Annual Financial Statements included elsewhere in this Prospectus have been audited by Ernst & Young, of 75 Mustakillik Avenue, Tashkent 100000, Republic of Uzbekistan, independent auditor, as stated in their report appearing herein.

The Group's Interim Financial Statements included elsewhere in this Prospectus have been reviewed by Ernst & Young, independent auditor, as stated in their review report appearing herein. The unaudited consolidated interim condensed financial information for the six-month period ended 30 June 2019 contained in the Interim Financial Statements was neither audited nor reviewed by Ernst & Young. See "*Presentation of Financial Information*".

Ernst & Young has a licence authorising audit of companies registered by the Ministry of Finance of the Republic of Uzbekistan under registration number 00816 dated 17 April 2019 and a certificate authorising audit of banks registered by the CBU under registration number 11 dated 22 July 2019.

GENERAL INFORMATION

(1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or around 21 October 2020, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction. The expenses related to the admission to trading of the Notes are expected to be approximately £8,000.

(2) The issue of the Notes was authorised by a written resolution of the Management Board of the Issuer dated 7 February 2020 No. 24 and the Supervisory Council of the Issuer dated 17 February 2020 No. 10.

(3) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

(4) The indication of yield in relation to the Notes is 4.85 per cent. per annum. This yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.

(5) The ISIN of the Global Note is XS2242418957 and the Common Code of the Global Note is 224241895.

(6) The Legal Entity Identifier is 253400TZJ7T1YULTGN68.

(7) There has been no material adverse change in the prospects of the Issuer since 31 December 2019 and no significant change in the financial performance of the Issuer or the Group since 30 June 2020 and to the date of this Prospectus.

(8) There has been no significant change in the financial position of the Issuer or the Group since 30 June 2020.

(9) As at the date of this Prospectus, there are no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the 12 months prior to the date of this Prospectus which may have, or have had in the recent past, a significant effect on the financial position or profitability of the Issuer or the Group.

(10) For so long as any Notes are outstanding, copies of the following will be available for inspection on the Issuer's website (https://nbu.uz/en/to-shareholders-and-investors/eurobond-issue-2020/):

- a copy of this Prospectus along with any supplement to this Prospectus;
- the charter documents of the Issuer; and
- the Financial Statements, including the related independent auditor's report and review report in respect thereof.

(11) For so long as any Notes are outstanding, copies of the following will be available for inspection, and may be obtained free of charge, during normal business hours on any weekday, (i) at the specified office of the Principal Paying Agent in London or (ii) electronically from the Issuer or the Principal Paying Agent:

- the Trust Deed to be entered into with the Trustee; and
- the Paying Agency Agreement to be entered into with the paying agents and the Trustee.

This Prospectus will also be published on the website of the Regulatory News Service operated by the London Stock Exchange at https://www.londonstockexchange.com/news?tab=news-explorer and https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

(12) No natural or legal person has an interest that is material to the issue of the Notes.

(13) The Issuer has obtained all necessary consents, approvals and authorisations in Uzbekistan in connection with its entry into, and performance of its obligations under, the Trust Deed and the Agency Agreement.

(14) There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders under the Notes.

(15) Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

(16) The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

(17) The Issuer does not intend to provide any post-issuance transaction information regarding the Notes.

(18) Citigroup Global Markets Europe AG will act as Registrar in relation to the Notes.

(19) There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

(20) The Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform services of the Issuer in the ordinary course of business. In the ordinary course of their business activities, the Joint Bookrunners and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer.

INDEX TO FINANCIAL STATEMENTS

JSC "NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN"

Interim Condensed Consolidated Financial Statements

30 June 2020

Building a better working world

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Report on review of interim condensed consolidated financial statements

Interim condensed consolidated financial statements

Selected explanatory notes to interim consolidated financial statements

Building a better working world

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Report on Review of Interim Financial Information

To the Board of Directors of National Bank of Foreign Economic Activity of the Republic of Uzbekistan

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint Stock Company "National Bank For Foreign Economic Activity of the Republic of Uzbekistan" and its subsidiaries, which comprise the interim consolidated statement of financial position as at 30 June 2020 and the related interim consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Tashkent, Uzbekistan

5 October 2020

Audit company „Ernst & Young MChJ"

«Ernst & Young» Audit Organization LLC
Certificate authorizing audit of banks registered by
the Central Bank of the Republic of Uzbekistan under #11
dated 22 July 2019

A. Azamov

Anvarkhon Azamov
Qualified auditor
Auditor qualification certificate authorizing audit of banks
#11/4 dated 11 May 2017 issued by the Central Bank of
the Republic of Uzbekistan

Head of Uzbekistan Practice
«Ernst & Young» Audit Organization LLC

Interim consolidated statement of financial position

as at 30 June 2020

(Millions of Uzbek Soums)

	Notes	*30 June 2020 (unaudited)*	*31 December 2019*
Assets			
Cash and cash equivalents	4	7,777,491	7,001,599
Amounts due from credit institutions	5	874,798	1,777,507
Derivative financial assets	6	106,655	102,510
Loans to customers	7	59,889,588	54,174,008
Assets held for sale		9,780	10,262
Investment securities	8	1,210,026	218,342
Current income tax assets		12,411	23,590
Investments in associates		453,614	239,535
Property and equipment		1,395,053	1,383,471
Deferred income tax assets		350,159	244,136
Other assets		346,398	314,381
Total assets		**72,425,973**	**65,489,341**
Liabilities			
Amounts due to the CBU and the Government	12	1,475,231	1,695,207
Amounts due to credit institutions	13	2,159,280	1,139,442
Amounts due to customers	14	16,286,561	15,507,241
Debt securities issued	15	922,498	131,641
Other borrowed funds	16	37,532,082	33,115,228
Subordinated loans	17	1,532,805	1,459,376
Other liabilities		292,129	293,979
		60,200,586	**53,342,114**
Equity			
Share capital	18	11,582,700	11,582,700
Contribution from shareholders		126,096	126,096
Retained earnings		314,569	233,099
Other reserves		123,008	101,232
Total equity attributable to shareholders of the Group		**12,146,373**	**12,043,127**
Non-controlling interests		79,014	104,100
Total equity		**12,225,387**	**12,147,227**
Total equity and liabilities		**72,425,973**	**65,489,341**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

5 October 2020

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of profit or loss

For the six months ended 30 June 2020

(Millions of Uzbek Soums)

	Notes	*For the six months ended 30 June (unaudited)* 2020	2019
Interest income		2 631 991	1 751 800
Interest expense		(1 012 443)	(889 760)
Net interest income		**1 619 548**	**862 040**
Credit loss expense	10	(705 439)	(463 198)
Initial recognition adjustment on interest bearing assets		(37 098)	(28 316)
Net interest income after credit loss expense and initial recognition of adjustment		**877 011**	**370 526**
Fee and commission income	11	175 542	200 278
Fee and commission expense	11	(35 387)	(37 179)
Net gain from financial instruments at fair value through profit or loss		4 145	28 263
Net gains/(losses) from foreign currencies:			
- dealing		27 382	11 476
- translation differences		(19 795)	29 291
Share of profit of associates		5 011	5 437
Dividend income		-	4 803
Other income		26 462	14 475
Other impairment and provisions		(77 121)	(10 059)
Personnel and operating expenses		(369 465)	(366 013)
Revenues of subsidiaries		204 626	134 735
Costs of subsidiaries		(163 657)	(107 256)
Net non-interest expense		**(222 257)**	**(91 749)**
Profit before income tax expense		**654 754**	**278 777**
Income tax expense	9	(158 971)	(38 224)
Profit for the period		**495 783**	**240 553**
Attributable to:			
- shareholders of the Group		505 861	243 251
- non-controlling interests		(10 078)	(2 698)
		495 783	**240 553**

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Alisher Mirsoatov — Chairman of the Management Board

Bobir Imomov — Chief Accountant

5 October 2020

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of other comprehensive income

For the six months ended 30 June 2020

(Millions of Uzbek Soums)

	For the six months ended 30 June (unaudited)	
	2020	*2019*
Profit for the period	**495 783**	**240 553**
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
Exchange difference on translation of foreign operations	9 812	15 613
Total other comprehensive income that may be reclassified to profit or loss in subsequent periods	**9 812**	**15 613**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Gains on equity instruments at fair value through other comprehensive income	985	-
Total other comprehensive income that will not be reclassified to profit or loss in subsequent periods	985	-
Other comprehensive income, net of tax	**10 797**	**15 613**
Total comprehensive income for the period	506 580	256 166
Attributable to:		
- shareholders of the Bank	516 256	256 522
- non-controlling interests	(9 676)	(356)
Total comprehensive income for the period	506 580	256 166

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Bobir Imomov — Chief Accountant

5 October 2020

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity

For the six months ended 30 June 2020

(Millions of Uzbek Soums)

	Notes	Share capital	Contribution from shareholders	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
		Attributable to shareholders of the Bank						
As at 1 January 2020		4 320 970	126 096	335 635	43 296	4 825 997	90 258	4 916 255
Net profit/(loss) for the period		-	-	243 251	-	243 251	(2 698)	240 553
Other comprehensive income for the period		-	-	-	13 271	13 271	2 342	15 613
Total Comprehensive income/(loss) for the period		-	-	243 251	13 271	256 522	(356)	256 166
At 30 June 2019 (unaudited)		4 320 970	126 096	578 886	56 567	5 082 519	89 902	5 172 421
As at 1 January 2020		11 582 700	126 096	233 099	101 232	12 043 127	104 100	12 147 227
Net profit/(loss) for the period		-	-	505 861	-	505 861	(10 078)	495 783
Other comprehensive income for the period		-	-	-	10 395	10 395	402	10 797
Total Comprehensive income/(loss) for the period		-	-	505 861	10 395	516 256	(9 676)	506 580
Distribution to shareholders of the Bank	18	-	-	(356 005)	-	(356 005)	-	(356 005)
Dividends to shareholders of the Bank	18	-	-	(68 386)	-	(68 386)	-	(68 386)
Increase in share of subsidiary		-	-	-	15 410	15 410	(15 410)	-
Other movement		-	-	-	(4 029)	(4 029)	-	(4 029)
At 30 June 2020 (unaudited)		11 582 700	126 096	314 569	123 008	12 146 373	79 014	12 225 387

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bobir Imomov — Chief Accountant

5 October 2020

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flow
for the six months ended 30 June 2020

(Millions of Uzbek Soums)

	Notes	*For the six months ended 30 June (unaudited)* 2020	2019
Cash flows from operating activities			
Profit before income tax		**654,754**	**278,777**
Adjustments for:			
Expected credit loss		705,439	463,198
Other impairment and provisions		77,121	10,059
Initial recognition adjustment on interest bearing assets		37,098	28,316
Net unrealized loss on foreign exchange operations		89,764	163,683
Net gain from financial instruments at fair value through profit or loss		(4,145)	(28,263)
Depreciation and amortization		40,201	32,953
Share of profit from associates		(5,011)	(5,437)
Change in interest income accrual		(696,126)	(243,324)
Change in interest expenses accrual		59,953	134,733
Other non-cash accruals		15,764	32,152
Cash flows from operating activities before changes in operating assets and liabilities		**974,812**	**866,847**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		915,515	(662,980)
Loans to customers		(3,505,921)	(11,285,802)
Derivative financial assets		-	(74,247)
Assets held for sale		482	10,493
Other assets		(99,075)	(115,267)
Net (increase)/decrease in operating liabilities			-
Amounts due to the CBU and the Government		(287,048)	16,883
Amounts due to credit institutions		946,550	148,719
Amounts due to customers		329,147	3,470,573
Other liabilities		(25,228)	2,378
Net cash flows used in operating activities before income tax		**(750,766)**	**(7,622,403)**
Income tax paid		(164,814)	(102,648)
Net cash used in operating activities		**(915,580)**	**(7,725,051)**

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flow

for the six months ended 30 June 2020

(Millions of Uzbek Soums)

	Notes	For the six months ended 30 June (unaudited) 2020	2019
Cash flows from investing activities			
Acquisition of investment securities		(999,919)	(159,361)
Purchase of investments in associates		(209,068)	(47,245)
Dividends received from associates and investments securities		-	4,803
Purchase of property and equipment		(159,304)	(481,083)
Proceeds from sale of property and equipment		107,521	207,521
Net cash used in investing activities		**(1,260,770)**	**(475,365)**
Cash flows from financing activities			
Proceeds from debt securities issued	15	790,884	-
Redemption of debt securities issued	15	-	(35,757)
Proceeds from other borrowed funds	16	3,465,090	12,764,621
Repayment of other borrowed funds	16	(1,110,819)	(3,148,871)
Proceeds from subordinated loans	17	-	1,322,146
Change in non-controlling interests		(9,040)	9,043
Dividends paid to shareholders of the Bank		(68,386)	-
Net cash from financing activities		**3,067,729**	**10,911,182**
Effect of changes in foreign exchange rates on cash and cash equivalents		(115,531)	(106,703)
Effect of expected credit losses on cash and cash equivalents		44	(4,744)
Net increase in cash and cash equivalents		**775,892**	**2,599,319**
Cash and cash equivalents, beginning		7,001,599	6,614,154
Cash and cash equivalents, ending	4	**7,777,491**	**9,213,473**
Interest received		1,935,865	1,508,476
Interest paid		(1,072,396)	(1,024,493)

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

5 October 2020

O'ZBEKISTON RESPUBLIKASI TASHQI IQTISODIY FAOLIYAT MILLIY BANKI» AKSIYADORLIK JAMIYATI
JOINT-STOCK COMPANY «NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN»
NBU

The accompanying selected explanatory notes on pages 7 to 32 are an integral part of these interim condensed consolidated financial statements.

(Millions of Uzbek Soums)

1. Principal activities

The Joint Stock Company National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") is the parent company in the Group, it was formed by the Decree of the President of the Republic of Uzbekistan dated 7 September 1991 No. PD-244. On the basis of the Decree of the President of the Republic of Uzbekistan dated 30 November 2019 No. PD-4540, the Bank was transformed from a unitary enterprise into a joint-stock company. The Bank is part of the banking system of the Republic of Uzbekistan and operates under a general banking license #22 reissued by the Central Bank of Uzbekistan ("CBU") on 15 February 2020.

The Bank services the Government of the Republic of Uzbekistan, accepts deposits from the public and extends credits, transfers payments in the Republic of Uzbekistan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The main office of the Bank is located in Tashkent and it has 73 branches (2019: 73) located in the territory of the Republic of Uzbekistan.

The Bank's registered legal address is 101 Amir Timur street, Tashkent, the Republic of Uzbekistan.

The Bank participates in the state deposit insurance program. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in case of business failure and revocation of the CBU banking license.

The following shareholders owned the issued shares of the Group:

Shareholder	*At 30 June 2020 (unaudited) %*	*At 31 December 2019 %*
The Fund for Reconstruction and Development of the Republic of Uzbekistan	58.5	58.5
The Ministry of Finance of the Republic of Uzbekistan	41.5	41.5
Total	**100**	**100**

The ultimate shareholder and ultimate controlling party of the Bank is the Government of the Republic of Uzbekistan.

These interim condensed consolidated financial statements were authorized for issue by the Management Board of the Group on 5 October 2020.

2. Basis of preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

Effect of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in the early of 2020 many governments, including the Uzbek Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude prices and decrease in UZS to USD and EUR foreign exchange rates.

In 2020, support measures were introduced by the Government and the Central Bank of Uzbekistan to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

(Millions of Uzbek Soums)

The Group continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

The Group has early adopted *Amendment to IFRS 16: Covid-19-Related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification and it did not have material effect. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Group.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the interim condensed consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the interim condensed consolidated financial statements of, nor is there expected to be any future impact to the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the interim condensed consolidated financial statements of the Group.

3. Segment reporting

The Group’s operations are a single reportable segment.

The Group provides mainly banking services in the Republic of Uzbekistan. The Group identifies the segment in accordance with the criteria set in IFRS 8, Operating Segments, and based on the way of operations of the Group are regularly reviewed by the chief operating decision-maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker (“CODM”) has been determined as the Group’s Chairman of the Management Board. The CODM reviews the Group’s internal reporting in order to assess performance and allocate resources. The Management has determined a single operating segment being banking services based on these internal reports.

Substantially all the Group's operations and assets are located in the Republic of Uzbekistan.

(Millions of Uzbek Soums)

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Time deposits with credit institutions up to 90 days	4,915,732	2,199,225
Current accounts with other credit institutions	1,509,397	2,886,310
Current accounts with the Central Banks	791,366	564,006
Cash on hand	561,141	1,352,159
	7,777,636	**7,001,700**
Less – allowance for impairment	(145)	(101)
Cash and cash equivalents	**7,777,491**	**7,001,599**

All balances of cash equivalents are allocated to Stage 1.

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Obligatory reserve with the Central Banks	574,311	958,719
Time deposits for more than 90 days	304,134	823,479
	878,445	**1,782,198**
Less – allowance for impairment	(3,647)	(4,691)
Amounts due from credit institutions	**874,798**	**1,777,507**

An analysis of changes in the ECL allowances during the six months ended 30 June 2020 and 30 June 2019 are as follows:

	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
ECL allowance as at 1 January	**4,691**	**3,320**
New assets originated or purchased	460	3,711
Assets repaid	(2,875)	(1,769)
Foreign exchange adjustments	1,371	2,260
At 30 June	**3,647**	**7,522**

6. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their national amounts.

	30 June 2020			*31 December 2019*		
	Notional amount	*Fair values*		*Notional amount*	*Fair values*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps – domestic	32,000	106,655	-	32,000	102,510	-
Total derivative assets	**32,000**	**106,655**	**-**	**32,000**	**102,510**	**-**

In 2019, the Group placed EUR 10,000,000 in PJSCB «Orient Finans» at a rate of 5.5% per annum for 60 months. For the same period, a deposit was received from PJSCB «Orient Finans» of UZS 32,000 at a rate of 12%. Swap contract is classified as financial instrument at fair value through profit and loss.

(Millions of Uzbek Soums)

7. Loans to customers

Loans to customers comprise

	30 June 2020 (unaudited)	*31 December 2019*
Corporate lending		
State companies	25,963,294	21,885,807
Private companies	21,688,254	19,348,145
State budget or local authorities	8,773,673	9,222,146
Gross investment in finance lease	958,885	973,109
Non-banking financial institutions	91,215	87,803
Total corporate lending	**57,475,321**	**51,517,010**
Loans to individuals		
Mortgage loans	3,087,781	2,746,278
Consumer loans	782,736	751,487
Car loans	782,941	657,190
Agriculture loans	296,266	353,887
Education loans	52,826	51,506
Total loans to individuals	**5,002,550**	**4,560,348**
Gross loans to customers	**62,477,871**	**56,077,358**
Less: allowance for impairment	(2,588,283)	(1,903,350)
Loans to customers	**59,889,588**	**54,174,008**

An analysis of loans to customers at amortised cost allocated by stages is, as follows:

30 June 2020 (unaudited)	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
State companies	24,848,965	826,357	287,972	**25,963,294**
Private companies	19,506,119	1,407,245	774,890	**21,688,254**
State budget or local authorities	8,773,673	-	-	**8,773,673**
Gross investment in finance lease	958,885	-	-	**958,885**
Non-banking financial institutions	91,215	-	-	**91,215**
Loans to Individuals	4,981,517	13,191	7,843	**5,002,550**
Gross loans to customers at amortised	**59,160,374**	**2,246,793**	**1,070,704**	**62,477,871**
Less – Allowance for impairment	(2,045,772)	(189,845)	(352,666)	**(2,588,283)**
Loans to customers at amortised cost	**57,114,602**	**2,056,948**	**718,038**	**59,889,588**

31 December 2019	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
State companies	21,401,592	3,539	480,676	**21,885,807**
Private companies	17,342,231	697,841	1,308,073	**19,348,145**
State budget or local authorities	9,222,146	-	-	**9,222,146**
Gross investment in finance lease	973,109	-	-	**973,109**
Non-banking financial institutions	87,803	-	-	**87,803**
Loans to Individuals	4,508,881	28,524	22,943	**4,560,348**
Gross loans to customers at amortised	**53,535,762**	**729,904**	**1,811,692**	**56,077,358**
Less – Allowance for impairment	(1,293,075)	(95,013)	(515,262)	**(1,903,350)**
Loans to customers at amortised cost	**54,828,837**	**824,917**	**2,326,954**	**57,980,708**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the ECL allowances in relation to loans issued to the state companies during the six months ended 30 June 2020 is, as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**537,153**	**1,095**	**66,473**	**604,721**
New assets originated or purchased	44,251	-	-	**44,251**
Assets repaid	(366)	(1,044)	(41)	**(1,451)**
Transfers to Stage 1	6,602	(9)	(6,593)	**-**
Transfers to Stage 2	(23,269)	41,677	(18,408)	**-**
Transfers to Stage 3	(273)	(16)	288	**-**
Impact on period end ECL of exposures transferred between stages during the period	(5,483)	(16,264)	1,012	**(20,735)**
Net remeasurement of loss allowance	417,248	(88)	(7,484)	**409,676**
Foreign exchange adjustments	36,446	79	2,394	**38,919**
At 30 June 2020 (unaudited)	**1,012,309**	**25,430**	**37,643**	**1,075,382**

An analysis of changes in the ECL allowances in relation to loans issued to the private companies during the six months ended 30 June 2020 is, as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**306,815**	**89,829**	**434,636**	**831,280**
New assets originated or purchased	101,568	-	-	**101,568**
Assets repaid	(11,079)	(21,926)	(32,601)	**(65,606)**
Transfers to Stage 1	232,204	(42,937)	(189,268)	**-**
Transfers to Stage 2	(10,029)	110,059	(100,030)	**-**
Transfers to Stage 3	(9,168)	(18,155)	27,323	**-**
Impact on period end ECL of exposures transferred between stages during the period	(191,592)	40,541	151,711	**660**
Net remeasurement of loss allowance	217,539	125	12,539	**230,203**
Foreign exchange adjustments	4,741	5,980	5,273	**15,994**
At 30 June 2020 (unaudited)	**640,998**	**163,517**	**309,584**	**1,114,099**

An analysis of changes in the ECL allowances in relation to loans issued to state budget or local authorities during the six months ended 30 June 2020 is, as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**404,364**	**-**	**-**	**404,364**
New assets originated or purchased	13,606	-	-	**13,606**
Assets repaid	(31,324)	-	-	**(31,324)**
Net remeasurement of loss allowance	(75,249)	-	-	**(75,249)**
Foreign exchange adjustments	441	-	-	**441**
At 30 June 2020 (unaudited)	**311,838**	**-**	**-**	**311,838**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the ECL allowances in relation to loans issued to the gross investment in finance lease during the six months ended 30 June 2020 is, as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**21,141**	**-**	**-**	**21,141**
Impact on period end ECL of exposures transferred between stages during the period	(1,801)	-	-	**(1,801)**
Foreign exchange adjustments	118	-	-	**118**
At 30 June 2020 (unaudited)	**19,458**	**-**	**-**	**19,458**

An analysis of changes in the ECL allowances in relation to loans issued to the non-banking financial institutions during the six months ended 30 June 2020 is, as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**751**	**-**	**-**	**751**
New assets originated or purchased	270	-	-	**270**
Assets repaid	(3)	-	-	**(3)**
Net remeasurement of loss allowance	(136)	-	-	**(136)**
At 30 June 2020 (unaudited)	**883**	**-**	**-**	**883**

An analysis of changes in the ECL allowances in relation to loans issued to individuals during the six months ended 30 June 2020 is, as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2020	**22,851**	**4,090**	**14,152**	**41,093**
New assets originated or purchased	6,927	-	-	**6,927**
Assets repaid	(430)	(176)	(283)	**(889)**
Transfers to Stage 1	12,552	(3,519)	(9,034)	**-**
Transfers to Stage 2	(86)	1,191	(1,105)	**(0)**
Transfers to Stage 3	(39)	(202)	241	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,086)	(378)	1,584	**(9,880)**
Net remeasurement of loss allowance	29,598	(109)	(117)	**29,372**
At 30 June 2020 (unaudited)	**60,286**	**898**	**5,439**	**66,623**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the ECL allowances in relation to loans issued to the state companies during the six months ended 30 June 2019 is, as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**678,555**	**5,939**	**209,682**	**894,176**
New assets originated or purchased	76,173	-	-	**76,173**
Assets repaid	(4,022)	(1)	-	**(4,023)**
Transfers to Stage 1	4,158	(4,158)	-	**-**
Transfers to Stage 2	(90)	106,728	(106,638)	**-**
Transfers to Stage 3	-	-	-	**-**
Impact on period end ECL of exposures transferred between stages during the period	(329)	(103,770)	-	**(104,100)**
Net remeasurement of loss allowance	31,671	8,789	(55,554)	**(15,094)**
Foreign exchange adjustments	48,263	-	12,581	**60,844**
At 30 June 2019 (unaudited)	**834,379**	**13,526**	**60,071**	**907,976**

An analysis of changes in the ECL allowances in relation to loans issued to the private companies during the six months ended 30 June 2019 is, as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**240,067**	**43,960**	**128,648**	**412,675**
New assets originated or purchased	103,570	-	-	**103,570**
Assets repaid	(8,394)	(1,724)	(11,761)	**(21,880)**
Transfers to Stage 1	13,760	(3,351)	(10,409)	**-**
Transfers to Stage 2	(26,031)	34,645	(8,614)	**-**
Transfers to Stage 3	(10,709)	(10,423)	21,133	**-**
Impact on period end ECL of exposures transferred between stages during the period	(10,096)	109,073	140,715	**239,693**
Net remeasurement of loss allowance	194,194	12,686	32,153	**239,033**
Foreign exchange adjustments	5,756	1,054	3,085	**9,895**
At 30 June 2019 (unaudited)	**502,116**	**185,921**	**294,950**	**982,986**

An analysis of changes in the ECL allowances in relation to loans issued to state budget or local authorities during the six months ended 30 June 2019 is, as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**181,229**	**-**	**-**	**181,229**
New assets originated or purchased	58,691	-	-	**58,691**
Assets repaid	(792)	-	-	**(792)**
Transfers to Stage 2	(9,402)	9,402		**-**
Impact on period end ECL of exposures transferred between stages during the period	-	441	-	**441**
Net remeasurement of loss allowance	(104,459)	-	-	**(104,459)**
Foreign exchange adjustments	2,866			**2,866**
At 30 June 2019 (unaudited)	**128,134**	**9,843**	**-**	**137,976**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the ECL allowances in relation to loans issued to the gross investment in finance lease during the six months ended 30 June 2019 is, as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**28,093**	**-**	**-**	**28,093**
Net remeasurement of loss allowance	(16,264)	-	-	**(16,264)**
Foreign exchange adjustments	(453)	-	-	**(453)**
At 30 June 2019 (unaudited)	**11,376**	**-**	**-**	**11,376**

An analysis of changes in the ECL allowances in relation to loans issued to the non-banking financial institutions during the six months ended 30 June 2019 is, as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**936**	**-**	**-**	**936**
New assets originated or purchased	98	-	-	**98**
Assets repaid	(6)	-	-	**(6)**
Net remeasurement of loss allowance	(673)	-	-	**(673)**
At 30 June 2019 (unaudited)	**355**	**-**	**-**	**355**

An analysis of changes in the ECL allowances in relation to loans issued to the individuals during the six months ended 30 June 2019 is, as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**44,311**	**706**	**6,070**	**51,087**
New assets originated or purchased	15,720	-	-	**15,720**
Assets repaid	(743)	(8)	(267)	**(1,018)**
Transfers to Stage 1	1,268	(315)	(954)	**-**
Transfers to Stage 2	(304)	393	(89)	**-**
Transfers to Stage 3	(1,050)	(317)	1,366	**-**
Impact on period end ECL of exposures transferred between stages during the period	(1,230)	2,040	4,381	**5,191**
Net remeasurement of loss allowance	(24,399)	(130)	(909)	**(25,438)**
At 30 June 2019 (unaudited)	**33,574**	**2,370**	**9,598**	**45,542**

As at 30 June 2020, the Group introduced certain changes in its process of estimation of expected credit losses in the context of the ongoing COVID-19 pandemic. In particular, it has revised indicators of significant increase in credit risk and does not automatically consider the credit risk to have significantly increased in the case of a loan modification being part of the Government support measures. The Group also updated forward looking information, including forecasts of macroeconomic indicators and scenarios' weights.

The credit loss expense increased by 190,396 UZS for the six months ended 30 June 2020 due to the changes described above.

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

During six months period ended 30 June 2020, the Group has modified the terms and conditions of certain mortgage and consumer loans, including introduction of payment holidays, as part of the measures introduced by the Government related to consequences of COVID-19 pandemic. The Group considered these modifications to be non-substantial.

In April 2020 the Group modified several loans according to the Government Decree in the total amount of UZS 3,995,112 issued to Uzbekistan Railways by decreasing its interest rate from 16% to 10%. This modification resulted in 10% decrease in discounted cash flows of original financial assets. According to the Group’s accounting policy, it recognized modified instruments as new financial assets and recorded the loss of UZS 356,005 through equity, as a transaction under common control.

(Millions of Uzbek Soums)

8. Investment securities

Investment securities comprises:

	30 June 2020 (unaudited)	*31 December 2019*
Debt securities at amortised cost		
State bonds	1,160,155	163,769
Less: allowance for impairment	(9,186)	(951)
Debt securities at amortised cost	**1,150,969**	**162,818**
Equity securities at FVOCI		
Corporate shares	59,057	55,524
Equity securities at FVOCI	**59,057**	**55,524**
Investment securities	**1,210,026**	**218,342**

State bonds comprise debt securities issued by the Ministry of Finance of the Republic of Uzbekistan and the Central Bank of the Republic of Uzbekistan at 10%-16% interest rate with original maturity of 1 -2 years for both dates as of December 31, 2019 and June 30, 2020.

Equity securities at FVOCI comprise equity investments in:

	30 June 2020 (unaudited)	*31 December 2019*
JSC Uzbek Korean Development bank	25,148	24,163
JSC Tashkent Mechanical Plant	12,520	12,520
JSC Uzmetkombinat	7,715	7,715
JSC Kafolat	4,160	4,160
Republican Stock Exchange „Tashkent“	2,838	2,838
OOO "O'yinchoqlar Fabrikasi"	1,688	-
JSC Qurilishmashleasing	1,500	1,500
JSC "Toys City"	1,177	-
OOO "National Products"	1,150	-
Uzbekinvest NEIIC	935	935
JSC Republican Currency Exchange	119	119
Other	107	1,574
Equity securities at FVOCI	**59,057**	**55,524**

All balances of investment securities are allocated to Stage 1.

9. Taxation

The corporate income tax expense comprises:

	30 June 2020 (unaudited)	*30 June 2019 (unaudited)*
Current income tax	175,993	99,328
Deferred tax credit − origination and reversal of temporary differences	(17,022)	(61,104)
Income tax expense	**158,971**	**38,224**

(Millions of Uzbek Soums)

10. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2020:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	4	44	-	-	**44**
Amounts due from credit institutions	5	(1 044)	-	-	**(1 044)**
Loans to customers at amortised cost	7	752 697	94 831	(162 596)	**684 933**
Debt securities measured at amortised cost	15	8 235	-	-	**8 235**
Other financial assets		(33)	-	(10 030)	**(10 063)**
Financial guarantees	19	9 929	-	-	**9 929**
Loan commitments	19	5 302	-	-	**5 302**
Letters of credit	19	8 103	-	-	**8 103**
Total credit loss expense		**783 233**	**94 831**	**(172 626)**	**705 439**

An analysis of changes in the ECLs for other financial assets for six months ended 30 June 2019 is, as follows:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents	4	(4,744)	-	-	**(4,744)**
Amounts due from credit institutions	5	4,202	-	-	**4,202**
Loans to customers at amortised cost	7	336,743	161,055	20,218	**518,016**
Other financial assets		45	-	1,334	**1,379**
Financial guarantees	19	(79,744)	-	-	**(79,744)**
Loan commitments	19	(144)	-	-	**(144)**
Letters of credit	19	24,233	-	-	**24,233**
Total credit loss expense		**280,591**	**161,055**	**21,552**	**463,198**

11. Net fee and commission income

Net fee and commission income comprises:

	For the six months ended	
	30 June 2020 (unaudited)	***30 June 2019 (unaudited)***
Settlement operations	60,589	91,029
Foreign currency exchange operations	27,130	22,703
Cash operations	28,808	17,287
Letters of credit and guarantee issuance	21,322	35,633
Foreign settlement operations	18,504	14,278
Operations with plastic cards	13,549	7,634
Other	5,640	11,715
Fee and commission income	**175,542**	**200,278**
Cash collection services	(9,556)	(18,325)
Operations with plastic cards	(8,846)	(8,047)
Settlement expenses	(7,550)	(4,460)
Commission expense for conducting operations on guarantees	(1,056)	(1,513)
Conversion expenses	(3,878)	(2,612)
Other	(4,501)	(2,222)
Fee and commission expense	**(35,387)**	**(37,179)**
Net fee and commission income	**140,155**	**163,099**

(Millions of Uzbek Soums)

12. Amounts due to the CBU and the Government

Amounts due to the Central Bank of the Republic of Uzbekistan comprise correspondent accounts of the CBU.

13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Correspondent accounts with other banks	1,947,902	898,860
Time deposits	211,378	240,582
Amounts due to Credit Institutions	**2,159,280**	**1,139,442**

14. Amounts due to customers

The amounts due to customers include the following:

	30 June 2020 (unaudited)	*31 December 2019*
Current accounts	9,920,317	9,079,076
Time deposits	6,366,244	6,428,165
Amounts due to customers	**16,286,561**	**15,507,241**
Held as security against letters of credit	2,458,355	3,701,184

As at 30 June 2020 and 31 December 2019, customer accounts in the amount of UZS 3,817,273 and UZS 7,598,307 (24% and 49% of total customer accounts), respectively, were due to ten customers, which represents a significant concentration.

15. Debt securities issued

Debt securities issued comprise:

	30 June 2020 (unaudited)	*31 December 2019*
Domestic bonds issued	821,675	21,483
Certificates of deposit	100,823	110,158
Debt securities issued	**922,498**	**131,641**

As of 30 June 2020, domestic bonds issued comprise bonds issued to the Central Bank of the Republic of Uzbekistan at 15%-16% interest rate and certificates of deposit included certificates issued to the Fund of Guarantee of Citizens' Deposits in Banks in the amount of UZS 100,823 at 6% interest rate.

(Millions of Uzbek Soums)

16. Other borrowed funds

Other borrowed funds consisted of the following:

	30 June 2020 (unaudited)	*31 December 2019*
Eximbank of China	11,296,434	10,867,733
China Development Bank	7,494,710	4,730,138
Fund for Reconstruction and Development of the Republic of Uzbekistan	3,238,108	4,576,742
Ministry of Finance of the Republic of Uzbekistan	3,055,037	2,990,720
Gazprombank JSC	1,665,365	319,819
Natixis Bank	1,507,718	1,512,552
Sumitomo Mitsui Banking Corporation	1,325,987	964,844
Credit Suisse AG	1,140,052	1,057,616
Deutsche Bank AG	1,062,346	1,241,643
Islamic Development Bank	971,665	992,798
Foreign Economic Bank of Russia	977,237	557,853
International Bank for Reconstruction and Development	723,713	616,193
European Bank for Reconstruction and Development	631,659	615,691
Eximbank of Korea	353,326	190,386
Landesbank Baden-Wuerttemberg	478,887	467,722
Baobab Securities Limited	383,687	381,556
"Yoshlar-Kelajagimiz" Fund	275,971	291,122
Other	950,181	740,100
Other borrowed funds	**37,532,082**	**33,115,228**

The Group received and paid following borrowings during the six months ended 30 June 2020:

The Group received funds under previously concluded loan Agreement with China Development Bank Corporation in the amount of UZS 1,249,193 to refinance the projects related to trade cooperation under the Belt and Road with participation of Chinese enterprises. In addition, the Group have received part of financing to previously opened borrowing line in the total amount of UZS 1,433,213 for supporting Uzbek enterprises.

In accordance with the loan agreement concluded in March 2020, the Group received a loan in the amount of UZS 1,519,806 (equivalent to USD 150,000,000) from Gazprombank. The loan is provided for further lending to eligible sub-borrowers for trade finance and capital expenditure purposes. The borrowing is to be repaid in 6 months.

During the six month ended 30 June 2020 the Group received funds in the amount of UZS 306,924 for the development of the telecommunication networks and information-communication infrastructure from credit line provided by Sumitomo Mitsui Banking Corporation.

In April 2020, the Group received new loan in the amount of UZS 38,266 from Foreign Economic Bank of Russia and additional funds in the amount of UZS 333,389 have been received under previous Loan Agreement for Energy Investment Project.

During the six month ended 30 June 2020 the Group received additional funds in the amount UZS 78,426 from International Bank for Reconstruction and Development on account for agricultural and industrial enterprises.

In accordance with the loan agreement concluded in September 2019 the Group received a loan from Aka Ausfuhrkredit-Gesellschaft MBH in the amount UZS 313,650 (equivalent to EUR 30,000,000).

In accordance with Cooperation Agreement between Banque de Cairo and Group, lender has provided credit line in the amount up to UZS 101,739 (equivalent to USD 10,000,000) for trade and project financing. The maturity of the loan is 370 days.

During 2020, under the relationship program between Turkey and Uzbekistan, funds in the amount of UZS 99,515 were received from Turk Eximbank.

(Millions of Uzbek Soums)

16. Other borrowed funds (continued)

The borrowing agreements with European Bank for Reconstruction and Development, Credit Suisse AG, Gazprombank JSC and China Development Bank stipulate financial covenants, non-compliance of which may give the lender a right to demand repayment. As at 30 June 2020, the Group has breached liquid assets to total assets ratio covenant under the terms of the agreements with Gazprombank JSC. As at 31 December 2019, the Group was in breach of the following covenants:

- Cash and cash equivalents to total assets ratio;

Liquid assets to total assets ratio.On 16 September 2020 Gazprombank provided a waiver-letter stating no penalties or early repayment would be requested by Gazprombank for the breach of abovementioned covenants.

17. Subordinated loans

Subordinated loans consisted of the following:

	30 June 2020 (unaudited)	*31 December 2019*
International Bank for Reconstruction and Development	896,559	845,687
Ministry of Finance of the Republic of Uzbekistan	363,196	360,037
Asian Development Bank	273,049	253,652
Subordinated loans	**1,532,805**	**1,459,376**

18. Equity

Distribution to shareholders of the Bank

The Group's distributable reserves among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general risks, including future losses and other unforeseen risks or contingencies.

In April 2020 the Group modified several loans according to Government Decree in the total amount of UZS 3,995,112 issued to Uzbekistan Railways by decreasing its interest rate from 16% to 10%. The Group recognized a modification loss of UZS 356,005 as a distribution to shareholders of the Bank through equity.

The Group distributes profits as dividends or transfers to reserves on the basis of the financial information prepared in accordance with the local legislation. In June 2020, the Group paid dividends to Shareholders in respect of the year ended 31 December 2019, totalling 68,386 UZS.

(Millions of Uzbek Soums)

19. Commitments and contingencies

Operating environment

Uzbekistan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy and continues to undergo substantial economic and social changes. The future stability of the Uzbekistan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group’s business in the current circumstances.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

Uzbekistan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Implementing regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the State Tax Committee and its various inspectorates) thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities that are empowered by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Uzbekistan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Group is in substantial compliance with the tax laws affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

As at 30 June 2020 management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

Credit related and other commitments

As of 30 June 2020 and 31 December 2019 the Group’s commitments and contingencies comprised the following:

	30 June 2020 (unaudited)	*31 December 2019*
Credit related commitments		
Letters of credit	6,504,742	5,790,913
Undrawn loan commitments	3,908,982	3,824,638
Financial guarantees	1,994,540	1,903,098
	12,408,264	**11,518,649**
Other commitments		
Performance guarantees	338,128	227,915
	338,128	**227,915**
Commitments and contingencies	**12,746,393**	**11,746,564**
Provision for ECL for credit related commitments	(75,113)	(51,779)
Deposits held as securities against letters of credit	(2,430,489)	(2,875,481)

(Millions of Uzbek Soums)

19. Commitments and contingencies (continued)

An analysis of changes in the ECLs during the six months ended 30 June 2020 is as follows:

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2020	**7,937**	**-**	**-**	**7,937**
New exposures	10,217	-	-	**10,217**
Amounts paid	(4,915)	-	-	**(4,915)**
At 30 June 2020 (unaudited)	**13,239**	**-**	**-**	**13,239**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2020	**20,750**	-	-	**20,750**
New exposures	8,473	-	-	**8,473**
Amounts paid	(370)	-	-	**(370)**
At 30 June 2020 (unaudited)	**28,853**	**-**	**-**	**28,853**

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2020	**23,092**	**-**	**-**	**23,092**
Amounts paid	1,751	-	-	**1,751**
Changes to models and inputs used for ECL calculations	8,178	-	-	**8,178**
At 30 June 2020 (unaudited)	**33,021**	**-**	**-**	**33,021**

An analysis of changes in the ECLs during the six months ended 30 June 2019 is as follows:

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2019	**144**	**-**	**-**	**144**
New exposures	-	-	-	**-**
Amounts paid	(144)	-	-	**(144)**
At 30 June 2019 (unaudited)	**-**	**-**	**-**	**-**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2019	**16,570**	-	-	**16,570**
New exposures	65,719	-	-	**65,719**
Amounts paid	(41,486)	-	-	**(41,486)**
At 30 June 2019 (unaudited)	**40,803**	**-**	**-**	**40,803**

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2019	**109,793**	**-**	**-**	**109,793**
Amounts paid	(1,552)	-	-	**(1,552)**
Changes to models and inputs used for ECL calculations	(78,192)	-	-	**(78,192)**
At 30 June 2019 (unaudited)	**30,049**	**-**	**-**	**30,049**

(Millions of Uzbek Soums)

20. Fair values of financial instruments

Fair value measurement procedures

The Group’s investment committee determines the policies and procedures for both recurring fair value measurement, such as investment securities.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The investment committee also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee present the valuation results to the audit committee and the Group’s independent auditors. This includes a discussion of the major assumptions used in the valuations.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Millions of Uzbek Soums)

20. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value measurement at the end of reporting period by level of the fair value hierarchy:

		Fair value measurement using			
At 30 June 2020 (unaudited)	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities - equity securities at FVOCI	30.06.2020	-	-	59,057	**59,057**
Derivative assets	30.06.2020	-	-	102,510	**102,510**
Assets for which fair values are disclosed					
Cash and cash equivalents	30.06.2020	7,777,491	-	-	**7,777,491**
Amounts due from credit institutions	30.06.2020	758,097	-	-	**758,097**
Investment securities measured at amortised cost	30.06.2020	1,159,204	-	-	**1,159,204**
Loans to customers	30.06.2020	-	-	61,000,392	**61,000,392**

		Fair value measurement using			
At 30 June 2020 (unaudited)	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to CBU and Government	30.06.2020	-	-	1,475,231	**1,475,231**
Amounts due to credit institutions	30.06.2020	-	-	2,089,039	**2,089,039**
Amounts due to customers	30.06.2020	-	-	16,274,694	**16,274,694**
Debt securities issued	30.06.2020	-	-	925,188	**925,188**
Other borrowed funds	30.06.2020	-	-	36,513,378	**36,513,378**
Subordinated loans	30.06.2020	-	-	1,535,900	**1,535,900**

(Millions of Uzbek Soums)

20. Fair value measurement (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
At 31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities - equity securities at FVOCI	31.12.2019	-	-	55,524	**55,524**
Derivative assets	31.12.2019	-	-	102,510	**102,510**
Assets for which fair values					
Cash and cash equivalents	31.12.2019	7,001,599	-	-	**7,001,599**
Amounts due from credit	31.12.2019	1,688,833	-	-	**1,688,833**
Investment securities measured at	31.12.2019	156,024	-	-	**162,818**
Loans to customers	31.12.2019	-	-	53,053,125	**53,053,125**

		Fair value measurement using			
At 31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values					
Amounts due to CBU and	31.12.2019	-	-	1,695,207	**1,695,207**
Amounts due to credit institutions	31.12.2019	-	-	1,132,582	**1,132,582**
Amounts due to customers	31.12.2019	-	-	15,507,241	**15,507,241**
Debt securities issued	31.12.2019	-	-	131,641	**131,641**
Other borrowed funds	31.12.2019	-	-	32,312,769	**32,312,769**
Subordinated loans	31.12.2019	-	-	1,437,402	**1,437,402**

Recurring fair value measurements

The following is a description of the determination of fair value for recurring fair value measurements which are recorded using valuation techniques. These incorporate the Group’s estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

(Millions of Uzbek Soums)

20. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the interim condensed consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2020 (unaudited)			*31 December 2019*		
	Carrying value	*Fair value*	*Unrecog-nised gain/(loss)*	*Carrying value*	*Fair value*	*Unrecog-nised gain/(loss)*
Financial assets						
Amounts due from credit institutions	758,097	758,097	-	1,777,507	1,688,833	(88,674)
Loans to customers	62,505,870	61,000,392	(1,505,478)	54,174,008	53,053,125	(1,120,883)
Investment securities − debt securities at amortised cost	1,159,204	1,136,558	(22,646)	162,818	156,024	(6,794)
Financial liabilities						
Amounts due to CBU and Government	1,475,231	1,475,231	-	1,695,207	1,695,207	-
Amounts due to credit institutions	2,159,280	2,089,039	70,241	1,139,442	1,132,582	6,860
Amounts due to customers	16,286,561	16,274,694	11,867	15,507,241	15,552,582	(45,341)
Debt securities	922,498	925,188	(2,689)	151,397	131,641	19,756
Other borrowed funds	37,532,083	36,513,378	1,018,705	33,115,228	32,312,769	802,459
Subordinated loans	1,532,805	1,535,900	(3,095)	1,459,376	1,437,402	21,974
Total unrecognised change in fair value			**(433,095)**			**(410,643)**

(Millions of Uzbek Soums)

20. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

Investment securities

Trading securities and investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Transfers between levels of fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2020	*Total gain recorded in profit or loss (unaudited)*	*Total gain recorded in OCI (unaudited)*	*Purchases (unaudited)*	*At 30 June 2020 (unaudited)*
Financial assets					
Derivative financial instruments	102,510	-	-	-	102,510
Investment securities – equity securities at FVOCI	55,524	-	985	2,548	59,057
Total level 3 financial assets	**158,034**	**-**	**985**	**2,548**	**161,567**

	At 1 January 2019	*Total gain recorded in profit or loss (unaudited)*	*Total gain recorded in OCI (unaudited)*	*Purchases (unaudited)*	*At 30 June 2019 (unaudited)*
Financial assets					
Derivative financial instruments	-	28,263	-	74,247	102,510
Investment securities – equity securities at FVOCI	47,762	-	-	5,075	52,837
Total level 3 financial assets	**47,762**	**28,263**	**-**	**79,322**	**155,347**

During the period ended 30 June 2020, there were no transfers between the level of fair value hierarchy.

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	Six months ended 30 June 2020 (unaudited)			*Year ended 31 December 2019*		
	Realised gains/ (losses)	*Unrealised gains/ (losses)*	*Total*	*Realised gains/ (losses)*	*Unrealised gains/ (losses)*	*Total*
Total gains or losses included in the profit or loss for the period	-	4,145	**4,145**	-	28,263	**28,263**

(Millions of Uzbek Soums)

20. Fair values of financial instruments (continued)

Fair value hierarchy (continued)

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy

30 June 2020 (unaudited)	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Derivative financial instruments					
Foreign currency swaps	102,510	Discounted cash flow	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 2,050
Investment securities measured at FVOCI					
Equity securities	59,057	Discounted cash flow of	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 1,062

31 December 2019	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted*	*Sensitivity of the input to fair value*
Derivative financial instruments					
Foreign currency swaps	102,510	Discounted cash flow	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 2,050
Investment securities					
Equity securities	55,524	Discounted cash flow of	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 1,110

(Millions of Uzbek Soums)

21. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on Consolidation and are not disclosed in this note. The outstanding balances of related party transactions are as follows:

Transactions with government-related entities

The Government of the Republic of Uzbekistan, acting through The Fund for Reconstruction and Development of the Republic of Uzbekistan and The Ministry of Finance of the Republic of Uzbekistan controls over the Group.

The Government of the Republic of Uzbekistan, directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as “government-related entities”). The Group enters into banking transactions with these entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions. These transactions comprise a large portion of the Group’s transactions are disclosed below.

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(Millions of Uzbek Soums)

21. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	30 June 2020 (unaudited)					*31 December 2019*				
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Parent***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Cash and cash equivalents	-	213,166	179,242	-	**7,777,491**	-	190,327	479,830	-	**7,001,599**
Amounts due from credit institutions	-	304,134	-	-	**874,798**	-	931,395	-	-	**1,777,507**
Investment securities	-	1,160,155	-	-	**1,210,026**	-	184,017	-	-	**218,342**
Loans to customers	-	34,892,272	591,477	-	**59,889,588**	-	30,179,247	345,120	-	**54,174,008**
Allowance for impairment losses – loans to customers	-	(1,419,280)	(18,325)	-	**(2,588,283)**	-	(1,064,958)	(13,750)	-	**(1,942,121)**
Debt securities issued	-	922,366	-	-	**922,498**	-	110,000	-	-	**131,641**
Subordinated loans	-	359,683	-		**1,532,805**	-	359,683	-	-	**1,459,376**
Amounts due to CBU and Government	-	1,475,231	-	-	**1,475,231**	-	1,695,207	-	-	**1,695,207**
Amounts due to customers	-	3,652,693	44,050	-	**16,286,561**	-	3,839,553	22,479	-	**15,507,241**
Amounts due to credit institutions	-	1,379,195	147	-	**2,159,280**	-	637,095	488	-	**1,139,442**
Other borrowed funds	3,238,108	14,539,739	-		**37,532,082**	2,051,876	20,862,255	-	-	**33,115,228**
Guarantees	-	1,691,123	9,961	-	**1,994,540**	-	1,636,778	3	-	**1,903,098**
Letters of credit	-	4,514,137	6,430	-	**6,504,742**	-	2,531,645	20,304	-	**5,790,913**

The income and expense arising from related party transactions are as follows:

	For the six months ended									
	30 June 2020 (unaudited)					*30 June 2019 (unaudited)*				
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Parent***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Interest income on loans	-	1,632,827	17,253	-	**2,563,865**	-	900,452	1,290	-	**1,630,204**
Impairment charge for loans	-	263,626	1,466	-	**987,793**	-	167,823	629	-	**765,968**
Interest expense on deposits	-	(118,175)	-	-	**(305,867)**	-	(101,333)	(526)	-	**(224,672)**
Interest expense on other borrowed funds	(70,310)	(5,167)	-	-	**(619,684)**	(23,947)	(193,748)	-	-	**(635,810)**
Fee and commission income	-	16,740	114	-	**175,542**	-	46,094	-	-	**200,278**
Fee and commission expense	-	(28,634)	(832)	-	**(35,387)**	(2,864)	(7,732)	-	-	**(37,179)**
Operating expenses	-	-	-	(2,222)	**(369,465)**	-	-	-	(1,799)	**(366,013)**
Salaries and other benefits	-	-	-	(2,147)	**204,291**	-	-	-	(1,747)	**201,175**
Social Security Costs	-	-	-	(75)	**19,717**	-	-	-	(52)	**39,261**

(Millions of Uzbek Soums)

21. Related party disclosures (continued)

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	*Principal place of business*	*Country of incorporation*	*Date of incorporation*	*Nature of activities*	*Ownership/ voting, %*	*Ownership/ voting, %*
30 June 2020 (unaudited)					***2020***	***2019***
Asia Invest Bank CJSC	Moscow	Russia	1996	Banking	96%	85%
NBU Invest Group LLC	Tashkent	Uzbekistan	2008	Asset management	100%	100%
VIP Service NBU LLC	Tashkent	Uzbekistan	1999	Office maintenance	100%	100%
Tashkent Palace New LLC	Tashkent	Uzbekistan	2010	Hotel business	100%	100%
NBU Bunyodkor Invest LLC	Tashkent	Uzbekistan	2017	Construction	100%	100%
NBU Gazgan Invest LLC	Navai	Uzbekistan	2017	Asset management	100%	100%
NBU Samarkand Invest LLC	Samarkand	Uzbekistan	2017	Asset management	100%	100%
Shomonay Eco Teks LLC	Tashkent	Uzbekistan	2017	Textile	59%	59%
Zarbdor Textile LLC	Jizzakh	Uzbekistan	2017	Textile	53%	53%
Funny Kids World LLC	Tashkent	Uzbekistan	2017	Manufacturing	84%	84%
JSC Gazgan Stone Invest	Tashkent	Uzbekistan	2020	Manufacturing	67%	-
Zomin Textile	Jizzakh	Uzbekistan	2017	Textile	74%	74%
Jayhun Gold Tex LLC	Karakalpakstan	Uzbekistan	2017	Textile	-	100%
Sherobod Textile LLC	Sherobod	Uzbekistan	2017	Textile	61%	61%
Paxtakor Gold Textile LLC	Tashkent	Uzbekistan	2016	Textile	56%	56%
Marmarobod LLC	Navai	Uzbekistan	2019	Manufacturing	100%	100%
United National Company LLC	Tashkent	Uzbekistan	2019	Manufacturing	100%	74%
National Products LLC	Tashkent	Uzbekistan	2017	Manufacturing	9%	99%

(Millions of Uzbek Soums)

21. Related party disclosures (continued)

Investments in associates

The following major associates are accounted for under the equity method:

30 June 2020	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*	*Carrying Value*
Yangi Zamon Bino LLC	25%	Tashkent	Uzbekistan	Construction	165,083
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Construction	85,000
Samarkand Touristic Centre LLC	40%	Tashkent	Uzbekistan	Hotel business	68,000
O'zbegim otlari LLC	42%	Tashkent	Uzbekistan	Horse	42,815
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	59,567
NBU Gazgan Invest LLC	28%	Tashkent	Uzbekistan	Asset management	20,000
Bo'ston Optimal Tekstil LLC	38%	Tashkent	Uzbekistan	Textile	6,275
Uzautotrans Service LLC	49%	Tashkent	Uzbekistan	Transportation	4,753
Other associates, individually immaterial		Other	Other	Other	2,120
Total value of investments in associates					**453,614**

31 December 2019	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*	*Carrying Value*
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Construction	85,000
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	53,644
O'zbegim otlari LLC	42%	Tashkent	Uzbekistan	Horse Breeding	52,000
Yangi Zamon Bino LLC	25%	Tashkent	Uzbekistan	Construction	36,076
Other associates, individually immaterial		Other	Other	Other	12,815
Total value of investments in associates					**239,535**

22. Events after the reporting period

New borrowings

In August 2020 the Group signed the long-term facility agreement with the Silk Road Fund for the total amount of UZS 2,058,700 and with the JICA Japan, which is issued to the Ministry of Finance of the Republic of Uzbekistan for the total amount of UZS 204,679. Partial received amount of the Group is UZS 14,839. Furthermore, under the existing agreements, the Group obtained foreign currency funds from China Development Bank in the amount of UZS 409,290 from VTB of Europe - UZS 181,997 and from Landesbank (LBBW) in the amount of UZS 128,417.

Acquisition of new Subsidiary

In accordance with the Government decision, the Board of Directors acquired 51% shares of the company of “YAGONA UMUMRESPUBLIKA PROTSESSING MARKAZI” LLC with the value of UZS 21,502.

JSC "NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN"

Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 December 2019

Building a better working world

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Statement of management’s responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2019

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Joint Stock Company “National Bank For Foreign Economic Activity of the Republic of Uzbekistan” and its subsidiaries (together referred to as “the Group”) as at 31 December 2019 and the results of its operations, cash flows and changes in shareholders’ equity for the year then ended,, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable,
- comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are
- insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting policies of the Republic of Uzbekistan and the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by the management on 9 July 2020.

On behalf of the Management:

Alisher Mirsoatov
Chairman of the Management Board

Bobir Imomov
Chief Accountant

9 July 2020

Tashkent, Uzbekistan

Building a better working world

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Independent auditor's report

To the Board of Directors of National Bank of Foreign Economic Activity of the Republic of Uzbekistan

Opinion

We have audited the consolidated financial statements of National Bank of Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Building a better working world

Responsibilities of management and the Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tashkent, Uzbekistan

29 July 2020

Audit company „Ernst & Young MChJ"

«Ernst & Young» Audit Organization LLC
Certificate authorizing audit of banks registered by the Central Bank of the Republic of Uzbekistan under #11 dated 22 July 2019

A. Azamov

Anvarkhon Azamov
Qualified auditor
Auditor qualification certificate authorizing audit of banks #11/4 dated 11 May 2017 issued by the Central Bank of the Republic of Uzbekistan

Head of Uzbekistan Practice
«Ernst & Young» Audit Organization LLC

Consolidated statement of financial position
as of 31 December 2019

(millions of Uzbek Soums)

	Notes	2019	2018
Assets			
Cash and cash equivalents	5	7,001,599	6,614,154
Amounts due from credit institutions	6	1,777,507	1,892,000
Derivative financial assets	7	102,510	-
Loans to customers	8	54,174,008	46,025,482
Assets held for sale		10,262	20,755
Investment securities	9	218,342	47,762
Current income tax assets	12	23,590	10,993
Investments in associates	10	239,535	189,853
Property and equipment	11	1,383,471	912,565
Deferred income tax assets	12	244,136	244,351
Other assets	14	314,381	241,584
Total assets		**65,489,341**	**56,199,499**
Liabilities			
Amounts due to the CBU and the Government	15	1,695,207	497,688
Amounts due to credit institutions	16	1,139,442	950,879
Amounts due to customers	17	15,507,241	11,871,894
Debt securities issued	18	131,641	145,915
Other borrowed funds	19	33,115,228	37,439,050
Subordinated loans	20	1,459,376	-
Other liabilities	14	293,979	377,818
		53,342,114	**51,283,244**
Equity			
Share capital	21	11,582,700	4,320,970
Contribution from shareholders		126,096	126,096
Retained earnings		233,099	335,635
Other reserves		101,232	43,296
Total equity attributable to shareholders of the Group		**12,043,127**	**4,825,997**
Non-controlling interests		104,100	90,258
Total equity		**12,147,227**	**4,916,255**
Total equity and liabilities		**65,489,341**	**56,199,499**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

9 July 2020

The accompanying notes on pages 7 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
for the year ended 31 December 2019

(millions of Uzbek Soums)

	Notes	*2019*	*2018*
Interest income	22	3,971,082	2,620,568
Interest expense	22	(2,138,230)	(1,358,970)
Net interest income		**1,832,852**	**1,261,598**
Credit loss (expense)/reversal	13	(271,645)	556,674
Initial recognition adjustment on interest bearing assets	8	(188,565)	(129,677)
Net interest income after credit loss expense and initial recognition of adjustment		**1,372,642**	**1,688,595**
Fee and commission income	23	446,791	391,131
Fee and commission expense	23	(83,073)	(74,928)
Net gain from financial instruments at fair value through profit or loss		28,263	-
Net gains/(losses) from foreign currencies:			
- dealing		44,598	69,664
- translation differences		(52,495)	(491,024)
Share of profit of associates	10	9,911	8,323
Dividend income		14,402	12,821
Other income	25	35,992	43,791
Other impairment and provisions		(21,727)	(45,761)
Personnel and operating expenses	24	(870,897)	(723,773)
Revenues of subsidiaries		365,723	76,086
Costs of subsidiaries		(292,496)	(106,503)
Net non-interest expense		**(375,008)**	**(840,173)**
Profit before income tax expense		**997,634**	**848,422**
Income tax expense	12	(207,545)	(59,473)
Profit for the year		**790,089**	**788,949**
Attributable to:			
- shareholders of the Group		815,070	802,947
- non-controlling interests		(24,981)	(13,998)
		790,089	**788,949**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bobir Imomov — Chief Accountant

9 July 2020

The accompanying notes on pages 7 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income

for the year ended 31 December 2019

(millions of Uzbek Soums)

	2019	*2018*
Profit for the year	**790,089**	**788,949**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations, net of tax	42,318	(20,532)
Other comprehensive income/(loss) for the year, net of tax	**42,318**	**(20,532)**
Total comprehensive income for the year	**832,407**	**768,417**
Attributable to:		
- shareholders of the Bank	851,040	785,495
- non-controlling interests	(18,633)	(17,078)
	832,407	**768,417**

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — Chairman of the Management Board

Bobir Imomov — Chief Accountant

9 July 2020

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Consolidated statement of changes in equity

for the year ended 31 December 2019

(millions of Uzbek Soums)

	Notes	*Attributable to shareholders of the Bank* Share capital	Contribution from shareholders	Retained earnings	Other reserves	Total	Non-controlling interests	Total equity
1 January 2018		1,267,530	-	2,586,128	60,748	3,914,406	25,261	3,939,667
Net profit/(loss) for the year		-	-	802,947	-	802,947	(13,998)	788,949
Other comprehensive loss for the year		-	-	-	(17,452)	(17,452)	(3,080)	(20,532)
Total comprehensive income for the year		-	-	802,947	(17,452)	785,495	(17,078)	768,417
Capitalization of retained earnings		3,053,440	-	(3,053,440)	-	-	-	-
Issuance of share capital		-	-	-	-	-	82,075	82,075
Gain on initial recognition of borrowings received from Government		-	126,096	-	-	126,096	-	126,096
31 December 2018		4,320,970	126,096	335,635	43,296	4,825,997	90,258	4,916,255
Net profit/(loss) for the year		-	-	815,070	-	815,070	(24,981)	790,089
Other comprehensive income for the year		-	-	-	35,970	35,970	6,348	42,318
Total comprehensive income for the year		-	-	815,070	35,970	851,040	(18,633)	832,407
Capitalization of retained earnings	21	906,352	-	(906,352)	-	-	-	-
Issuance of share capital	21	6,355,378	-	-	-	6,355,378	9,927	6,365,305
Other movement		-	-	(11,254)	21,966	10,712	22,548	33,260
31 December 2019		11,582,700	126,096	233,099	101,232	12,043,127	104,100	12,147,227

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Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

9 July 2020

The accompanying notes on pages 7 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of cash flow

for the year ended 31 December 2019

(millions of Uzbek Soums)

	Notes	2019	2018
Cash flows from operating activities			
Profit before income tax		**997,634**	**848,422**
Adjustments for:			
Provision for impairment losses on interest bearing assets	13	276,356	(556,260)
Other impairment and provisions		21,727	45,759
Initial recognition adjustment on interest bearing assets	8	188,565	129,677
Net unrealized loss on foreign exchange operations		327,365	103,261
Net gain from financial instruments at fair value through profit or loss		(28,263)	
Depreciation and amortization	11	90,469	45,545
Share of profit from associates		(9,911)	(8,323)
Change in interest income accrual		(543,819)	502,350
Change in interest expenses accrual		146,953	13,205
Other non-cash accruals		98,592	5,103
Cash flows from operating activities before changes in operating assets and liabilities		**1,565,668**	**1,128,739**
Net (increase)/decrease in operating assets			
Due from banks		231,715	116,468
Loans to customers		(19,532,606)	(10,728,287)
Derivative financial assets		(74,247)	-
Non-current assets held for sale		10,493	175,103
Other assets		(108,130)	17,416
Net (increase)/decrease in operating liabilities			
Amounts due to the CBU and the Government		1,135,846	(324,266)
Amounts due to credit institutions		106,973	(958,536)
Amounts due to customers		3,092,009	(271,562)
Liabilities directly associated with assets held for sale		-	(18,024)
Other liabilities		(45,960)	181,918
Net cash flows used in operating activities before income tax		**(13,618,239)**	**(10,681,031)**
Income tax paid		(219,927)	(107,486)
Net cash used in operating activities		**(13,838,166)**	**(10,788,517)**

The accompanying notes on pages 7 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of cash flow

for the year ended 31 December 2019

(millions of Uzbek Soums)

	Notes	*2019*	*2018*
Cash flows from investing activities			
Acquisition of investment securities		(171,531)	-
Proceeds from sale of investment securities		-	13,100
Purchase of investments in associates		(39,771)	(125,594)
Dividends received from associates and investments securities		14,402	12,821
Purchase of property and equipment		(841,984)	(745,231)
Proceeds from sale of property and equipment		280,609	21,034
Net cash used in investing activities		**(758,275)**	**(823,870)**
Cash flows from financing activities			
Redemption of debt securities issued	26	(14,274)	(29,243)
Proceeds from other borrowed funds	26	18,778,808	8,419,596
Repayment of other borrowed funds	26	(4,923,235)	(846,805)
Proceeds from subordinated loans	26	1,346,861	-
Change in non-controlling interests		13,842	51,001
Net cash from financing activities		**15,202,002**	**7,594,549**
Effect of changes in foreign exchange rates on cash and cash equivalents		(213,405)	(448,104)
Effect of expected credit losses on cash and cash equivalents	13	(4,711)	(412)
Net increase in cash and cash equivalents		**387,445**	**(4,466,354)**
Cash and cash equivalents, beginning		6,614,154	11,080,508
Cash and cash equivalents, ending	5	**7,001,599**	**6,614,154**
Interest received		3,427,263	2,947,515
Interest paid		(1,991,277)	(1,696,011)

Signed and authorized for release on behalf of the Management Board of the Bank

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

9 July 2020

The accompanying notes on pages 7 to 66 are an integral part of these consolidated financial statements.

(millions of Uzbek Soums)

1. Principal activities

The Joint Stock Company National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") is the parent company in the Group, it was formed by the Decree of the President of the Republic of Uzbekistan dated 7 September 1991 No. PD-244. On the basis of the Decree of the President of the Republic of Uzbekistan dated 30 November 2019 No. PD-4540, the Bank was transformed from a unitary enterprise into a joint-stock company. The Bank is part of the banking system of the Republic of Uzbekistan and operates under a general banking license #22 reissued by the Central Bank of Uzbekistan ("CBU") on 15 February 2020.

The Bank services the Government of the Republic of Uzbekistan, accepts deposits from the public and extends credits, transfers payments in the Republic of Uzbekistan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The main office of the Bank is located in Tashkent and it has 73 branches (2018: 93) located in the territory of the Republic of Uzbekistan.

The Bank's registered legal address is 101 Amir Timur street, Tashkent, the Republic of Uzbekistan.

The Bank participates in the state deposit insurance program. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in case of business failure and revocation of the CBU banking license.

As of 31 December, the following shareholders owned the issued shares of the Group:

Shareholder	***2019, %***	***2018, %***
The Fund for Reconstruction and Development of the Republic of Uzbekistan	58.5	-
The Ministry of Finance of the Republic of Uzbekistan	41.5	-
The Cabinet of Ministers of the Republic of Uzbekistan	-	100
Total	**100**	**100**

The ultimate shareholder and ultimate controlling party of the Bank is the Government of the Republic of Uzbekistan.

These consolidated financial statements were authorized for issue by the Management Board of the Group on 9 July 2020.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

The Group maintains its accounting records in accordance with the respective laws of the Republic of Uzbekistan, the Russian Federation. These consolidated financial statements have been prepared from statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassification of certain assets and liabilities, income and expenses to appropriate financial statement caption.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities have been measured at fair value.

These consolidated financial statements are presented in millions of Uzbek Soums (“UZS”), except per share amounts and unless otherwise indicated.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 30.

(millions of Uzbek Soums)

3. Significant accounting policies

Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 Operating Leases − Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

All lease arrangements of the Bank are concluded for the period of up to 1 year with no contractual option to extend. However, according to the legislation of Uzbekistan the current lessee has a priority right to conclude lease agreement with the lessor once the current lease ends. So, this right is assessed by the Bank as an option to extend. The Bank assesses that the implementation of IFRS 16 has no material impact on the amounts or disclosures in these consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Bank's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equal or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Fair value measurement (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivatives at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group’s original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and undrawn loan commitments

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2019.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Banks, excluding obligatory reserves, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances.

Obligatory reserves with the Central Banks

Obligatory reserves with the Central Banks represent the amount of mandatory reserves deposited with the Central Banks of the Republic of Uzbekistan and the Russian Federation, which are not available to finance the Group’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including swaps in the foreign exchange markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net dealing gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

3. Significant accounting policies (continued)

Derivative financial instruments (continued)

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBU, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Renegotiated loans (continued)

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments according to the modified payment schedule should be made.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Uzbekistan and of Russian Federation.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Uzbekistan and Russia also have various operating taxes that are assessed on the Group's activities. These taxes are included as a component of operating expenses.

Property and equipment

Property and equipment are carried at restated cost after the change of functional currency adjustment applied on 1 January 2007, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture and equipment	2-10

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Uzbekistan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital represents contributions made by the Fund for Reconstruction and Development of the Republic of Uzbekistan and the Ministry of Finance of the Republic of Uzbekistan.

Other reserves

Other reserves represent the special purpose tax privileges and exchange difference on translation of foreign operations. The special purpose tax privileges are granted to newly established subsidiaries on the base of foreclosed property of former bankrupt entities and recognized by the Group at the time of their granting. At the time of utilization of these privileges, e.g. for financing capital expenditures, technological modernization and other reimbursements related to those subsidiaries, the special tax privileges are debited to the Group's retained earnings. The exchange difference on translation of foreign operations arises on translation of the financial statements of foreign consolidated entities.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter

(millions of Uzbek Soums)

3. Significant accounting policies (continued)

Recognition of income and expenses (continued)

period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest revenue" in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in UZS, which is the Group's presentation currency. The functional currency of the Group entities operating in the Republic of Uzbekistan is UZS, while the functional currency of the Group entity operating in the Russian Federation is Russian Ruble. The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as net gain on foreign exchange operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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3. Significant accounting policies (continued)

Foreign currency translation (continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBU exchange rate on the date of the transaction are included in net gain/(loss) on foreign exchange operations. The official CBU exchange rates at 31 December 2019 and 31 December 2018, were 9,507.56 and 8,339.55 UZS to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into UZS at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of profit or loss.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.’

The amendments to the definition of material is not expected to have a significant impact on the Group’s consolidated financial statements.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Group’s consolidated financial statements.

(millions of Uzbek Soums)

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 29.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades;
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2019 was UZS 1,903,350 (2018: UZS 1,568,196). More details are provided in Notes 13 and 30.

Borrowings from financial institutions

The Group obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As a result of this financing, the Group is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of these instruments and its judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market sector.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary since it is probable that the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to UZS 265,089 and UZS 244,351 as at 31 December 2019 and 2018, respectively.

(millions of Uzbek Soums)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019	*2018*
Time deposits with credit institutions up to 90 days	2,199,225	2,952,082
Current accounts with other credit institutions	2,886,310	2,874,410
Current accounts with the Central Banks	1,352,159	239,772
Cash on hand	564,006	552,702
	7,001,700	**6,618,966**
Less – allowance for impairment	(101)	(4,812)
Cash and cash equivalents	**7,001,599**	**6,614,154**

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

	2019	*2018*
ECL allowance as at 1 January	**4,812**	**4,402**
Changes in ECL	(4,711)	11
Foreign exchange adjustments	-	399
At 31 December	**101**	**4,812**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2019	*2018*
Obligatory reserve with the Central Banks	958,719	915,603
Time deposits for more than 90 days	823,479	979,717
	1,782,198	**1,895,320**
Less – allowance for impairment	(4,691)	(3,320)
Amounts due from credit institutions	**1,777,507**	**1,892,000**

As at 31 December 2019 Group had balances with various banks, with individual exposure not exceeding 10% of the Group’s equity.

Credit institutions are required to maintain a non-interest earning cash deposit obligatory reserve with the Central Banks, the amount of which depends on the level of funds attracted by the credit institution. The Group’s ability to withdraw such deposit is significantly restricted by the statutory legislation. The Obligatory reserves with Central Banks are formed on the basis of the level of funds attracted from customers and reserves against assets impairment.

As at 31 December 2019, obligatory reserves with Central Banks comprise mandatory cash balances with the Central Banks of the Republic of Uzbekistan and the Russian Federation in the amounts of UZS 931,395 and UZS 27,324, respectively (2018: UZS 858,552 and UZS 57,051).

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2019 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**1,895,320**	**-**	**-**	**1,895,320**
New assets originated or purchased	322,950	-	-	322,950
Assets repaid	(440,592)	-	-	(440,592)
Foreign exchange adjustments	4,520	-	-	4,520
At 31 December 2019	**1,782,198**	**-**	**-**	**1,782,198**

(millions of Uzbek Soums)

6. Amounts due from credit institutions (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2019	**3,320**	**-**	**-**	**3,320**
New assets originated or purchased	2,211	-	-	**2,211**
Assets repaid	(1,600)	-	-	**(1,600)**
Foreign exchange adjustments	760	-	-	**760**
At 31 December 2019	**4,691**	**-**	**-**	**4,691**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2018 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**2,006,794**	**-**	**-**	**2,006,794**
New assets originated or purchased	739,043	-	-	739,043
Assets repaid	(857,092)	-	-	(857,092)
Foreign exchange adjustments	6,575	-	-	6,575
At 31 December 2018	**1,895,320**	**-**	**-**	**1,895,320**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	**940**	**-**	**-**	**940**
New assets originated or purchased	3,365	-	-	3,365
Assets repaid	(988)	-	-	(988)
Foreign exchange adjustments	3	-	-	3
At 31 December 2018	**3,320**	**-**	**-**	**3,320**

7. Derivative financial instruments

	2019		
	Notional amount	***Fair values***	
		Asset	***Liability***
Foreign exchange contracts			
Swaps – domestic	32,000	102,510	-
Total derivative assets	**32,000**	**102,510**	**-**

In 2019, the Group placed EUR 10,000,000 in PJSCB «Orient Finans» at a rate of 5.5% per annum for 60 months. For the same period, a deposit was received from PJSCB «Orient Finans» of UZS 32,000 at a rate of 12%. Swap contract is classified as financial instrument at fair value through profit and loss.

(millions of Uzbek Soums)

8. Loans to customers

Loans to customers comprise

	2019	*2018*
Corporate lending		
State companies	21,885,807	24,488,985
Private companies	19,348,145	13,291,014
State budget or local authorities	9,222,146	5,681,138
Gross investment in finance lease	973,109	989,714
Non-banking financial institutions	87,803	78,947
Total corporate lending	**51,517,010**	**44,529,798**
Loans to individuals		
Mortgage loans	2,746,278	1,905,372
Consumer loans	751,487	541,527
Car loans	657,190	292,977
Agriculture loans	353,887	281,934
Education loans	51,506	42,070
Total loans to individuals	**4,560,348**	**3,063,880**
Gross loans to customers	**56,077,358**	**47,593,678**
Less: allowance for impairment	(1,903,350)	(1,568,196)
Loans to customers	**54,174,008**	**46,025,482**

Loans to customers were granted both in foreign currencies and UZS, while loans granted in USD make 52% (2018: 67%) of loan portfolio of the Group.

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state companies during the year ended 31 December 2019 is as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**23,671,587**	**340,202**	**477,196**	**24,488,985**
New assets originated or purchased	6,751,830	-	-	**6,751,830**
Assets repaid	(10,589,766)	(51,964)	(196,891)	**(10,838,621)**
Transfers to Stage 1	159,754	(159,754)	-	**-**
Transfers to Stage 2	(3,539)	3,539	-	**-**
Transfers to Stage 3	(5,053)	(128,484)	133,537	**-**
Foreign exchange adjustments	1,416,779	-	66,834	**1,483,613**
At 31 December 2019	**21,401,592**	**3,539**	**480,676**	**21,885,807**

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**678,555**	**5,939**	**209,682**	**894,176**
New assets originated or purchased	365,158	-	-	**365,158**
Assets repaid	(305,057)	(7)	(138,346)	**(443,410)**
Transfers to Stage 1	4,157	(4,157)		
Transfers to Stage 2	(110)	110		**-**
Transfers to Stage 3	(94)	(1,775)	1,869	**-**
Impact on period end ECL of exposures transferred between stages during the period	(3,477)	(2,214)	17,727	**12,036**
Net remeasurement of loss allowance	(243,441)	3,198	(38,438)	**(278,682)**
Foreign exchange adjustments	41,462	-	13,980	**55,442**
At 31 December 2019	**537,153**	**1,094**	**66,474**	**604,721**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to private companies during the year ended 31 December 2019 is as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**12,635,013**	**372,684**	**283,317**	**13,291,014**
New assets originated or purchased	8,960,169	-	-	**8,960,169**
Assets repaid	(3,405,575)	(199,270)	(168,255)	**(3,773,100)**
Transfers to Stage 1	24,163	(13,227)	(10,936)	**-**
Transfers to Stage 2	(696,335)	705,991	(9,656)	**-**
Transfers to Stage 3	(936,272)	(214,379)	1,150,651	**-**
Foreign exchange adjustments	761,068	46,042	62,952	**870,062**
At 31 December 2019	**17,342,231**	**697,841**	**1,308,073**	**19,348,145**

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**240,067**	**43,960**	**128,648**	**412,675**
New assets originated or purchased	450,258	-	-	**450,258**
Assets repaid	(37,479)	(43,137)	(296,543)	**(377,159)**
Transfers to Stage 1	12,030	(1,596)	(10,434)	**-**
Transfers to Stage 2	(41,265)	45,445	(4,180)	**-**
Transfers to Stage 3	(46,587)	(34,973)	81,560	**-**
Impact on period end ECL of exposures transferred between stages during the period	(11,358)	65,449	258,927	**313,018**
Net remeasurement of loss allowance	(272,098)	13,307	274,869	**16,078**
Foreign exchange adjustments	13,247	1,374	1,789	**16,410**
At 31 December 2019	**306,815**	**89,829**	**434,636**	**831,280**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state budget or local authorities during the year ended 31 December 2019 is as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**5,681,138**	**-**	**-**	**5,681,138**
New assets originated or purchased	4,621,454	-	-	**4,621,454**
Assets repaid	(1,733,559)	-	-	**(1,733,559)**
Foreign exchange adjustments	653,114	-	-	**653,114**
At 31 December 2019	**9,222,146**	**-**	**-**	**9,222,146**

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**181,229**	**-**	**-**	**181,229**
New assets originated or purchased	211,059	-	-	**211,059**
Assets repaid	(28,467)	-	-	**(28,467)**
Net remeasurement of loss allowance	20,279	-	-	**20,279**
Foreign exchange adjustments	20,264	-	-	**20,264**
At 31 December 2019	**404,364**	**-**	**-**	**404,364**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gross investment in finance lease during the year ended 31 December 2019 is as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**989,714**	**-**	**-**	**989,714**
Assets repaid	(158,767)	-	-	**(158,767)**
Foreign exchange adjustments	142,162	-	-	**142,162**
At 31 December 2019	**973,109**	**-**	**-**	**973,109**

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**28,093**	**-**	**-**	**28,093**
Assets repaid	(7,380)	-	-	**(7,380)**
Net remeasurement of loss allowance	(3,507)	-	-	**(3,507)**
Foreign exchange adjustments	3,935	-	-	**3,935**
At 31 December 2019	**21,141**	**-**	**-**	**21,141**

An analysis of changes in the gross carrying value and corresponding ECL in relation to non-banking financial institutions during the year ended 31 December 2019 is as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**78,797**	**-**	**-**	**78,797**
New assets originated or purchased	48,219	-	-	**48,219**
Assets repaid	(39,213)	-	-	**(39,213)**
At 31 December 2019	**87,803**	**-**	**-**	**87,803**

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**936**	**-**	**-**	**936**
New assets originated or purchased	456	-	-	**456**
Assets repaid	(14)	-	-	**(14)**
Net remeasurement of loss allowance	(627)	-	-	**(627)**
At 31 December 2019	**751**	**-**	**-**	**751**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to individuals in during the year ended 31 December 2019 is as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2019	**3,043,818**	**3,234**	**16,828**	**3,063,880**
New assets originated or purchased	1,969,827	-	-	**1,969,827**
Assets repaid	(446,509)	(8,234)	(18,616)	**(473,359)**
Transfers to Stage 1	2,959	(1,014)	(1,945)	**-**
Transfers to Stage 2	(33,604)	34,811	(1,207)	**-**
Transfers to Stage 3	(27,610)	(273)	27,883	**-**
At 31 December 2019	**4,508,881**	**28,524**	**22,943**	**4,560,348**

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2019	**44,311**	**706**	**6,070**	**51,087**
New assets originated or purchased	23,323	-	-	**23,323**
Assets repaid	(11,867)	(3,471)	(17,973)	**(33,311)**
Transfers to Stage 1	298	(100)	(198)	**-**
Transfers to Stage 2	(2,643)	3,445	(802)	**-**
Transfers to Stage 3	(6,360)	(60)	6,420	**-**
Impact on period end ECL of exposures transferred between stages during the period	(1,115)	626	6,877	**6,388**
Net remeasurement of loss allowance	(23,096)	2,944	13,758	**(6,394)**
At 31 December 2019	**22,851**	**4,090**	**14,152**	**41,093**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state companies during the year ended 31 December 2018 is as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**19,347,617**	**221,067**	**625,838**	**20,194,522**
New assets originated or purchased	4,266,262	-	-	**4,266,262**
Assets repaid	(374,296)	(3,612)	(50,927)	**(428,835)**
Transfers to Stage 2	(354)	113,641	(113,287)	**-**
Transfers to Stage 3	(6,649)	-	6,649	**-**
Foreign exchange adjustments	439,007	9,106	8,923	**457,036**
At 31 December 2018	**23,671,587**	**340,202**	**477,196**	**24,488,985**

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**1,129,379**	**2,481**	**246,571**	**1,378,431**
New assets originated or purchased	124,863	-	-	**124,863**
Assets repaid	(7,556)	-	(4,152)	**(11,708)**
Transfers to Stage 2	(1,755)	13,425	(11,670)	**-**
Transfers to Stage 3	(776)	-	776	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	(9,894)	4,311	**(5,583)**
Net remeasurement of loss allowance	(591,000)	(453)	(27,905)	**(619,358)**
Foreign exchange adjustments	25,400	380	1,751	**27,531**
At 31 December 2018	**678,555**	**5,939**	**209,682**	**894,176**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to private companies during the year ended 31 December 2018 is as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**7,616,945**	**384,452**	**162,916**	**8,164,313**
New assets originated or purchased	7,720,939	-	-	**7,720,939**
Assets repaid	(2,420,971)	(179,132)	(85,517)	**(2,685,620)**
Transfers to Stage 1	120,505	(55,201)	(65,304)	**-**
Transfers to Stage 2	(262,970)	263,232	(262)	**-**
Transfers to Stage 3	(227,785)	(42,467)	270,252	**-**
Foreign exchange adjustments	88,350	1,800	1,232	**91,382**
At 31 December 2018	**12,635,013**	**372,684**	**283,317**	**13,291,014**

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**260,313**	**106,419**	**46,315**	**413,047**
New assets originated or purchased	209,319	-	-	**209,319**
Assets repaid	(44,074)	(1,969)	(16,152)	**(62,195)**
Transfers to Stage 1	30,582	(7,607)	(22,975)	**-**
Transfers to Stage 2	(32,092)	32,255	(163)	**-**
Transfers to Stage 3	(57,713)	(8,251)	65,964	**-**
Impact on period end ECL of exposures transferred between stages during the period	(28,785)	6,396	58,420	**36,031**
Net remeasurement of loss allowance	(99,829)	(83,312)	(2,805)	**(185,946)**
Foreign exchange adjustments	2,346	29	44	**2,419**
At 31 December 2018	**240,067**	**43,960**	**128,648**	**412,675**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state budget or local authorities during the year ended 31 December 2018 is as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**5,211,223**	**-**	**-**	**5,211,223**
New assets originated or purchased	872,863	-	-	**872,863**
Assets repaid	(433,108)	-	-	**(433,108)**
Foreign exchange adjustments	30,160	-	-	**30,160**
At 31 December 2018	**5,681,138**	**-**	**-**	**5,681,138**

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**255,085**	**-**	**-**	**255,085**
New assets originated or purchased	33,450	-	-	**33,450**
Net remeasurement of loss allowance	(108,962)	-	-	**(108,962)**
Foreign exchange adjustments	1,656	-	-	**1,656**
At 31 December 2018	**181,229**	**-**	**-**	**181,229**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gross investment in finance lease during the year ended 31 December 2018 is as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**1,047,162**	**-**	**-**	**1,047,162**
Assets repaid	(87,977)	-	-	**(87,977)**
Foreign exchange adjustments	30,529	-	-	**30,529**
At 31 December 2018	**989,714**	**-**	**-**	**989,714**

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**69,233**	**-**	**-**	**69,233**
Net remeasurement of loss allowance	(43,011)	-	-	**(43,011)**
Foreign exchange adjustments	1,871	-	-	**1,871**
At 31 December 2018	**28,093**	**-**	**-**	**28,093**

An analysis of changes in the gross carrying value and corresponding ECL in relation to non-banking financial institutions during the year ended 31 December 2018 is as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**32,131**	**-**	**-**	**32,131**
New assets originated or purchased	60,698	-	-	**60,698**
Assets repaid	(13,882)	-	-	**(13,882)**
At 31 December 2018	**78,947**	**-**	**-**	**78,947**

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**681**	**-**	**-**	**681**
New assets originated or purchased	855	-	-	**855**
Assets repaid	(28)	-	-	**(28)**
Net remeasurement of loss allowance	(572)	-	-	**(572)**
At 31 December 2018	**936**	**-**	**-**	**936**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to individuals in during the year ended 31 December 2018 is as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**1,801,439**	**4,949**	**6,508**	**1,812,896**
New assets originated or purchased	1,665,489	-	-	**1,665,489**
Assets repaid	(418,912)	(1,008)	(1,488)	**(421,408)**
Transfers to Stage 1	5,723	(2,568)	(3,155)	**-**
Transfers to Stage 2	(3,193)	3,193	-	**-**
Transfers to Stage 3	(6,728)	(1,332)	8,060	**-**
Unwinding of discount	-	-	6,903	**6,903**
At 31 December 2018	**3,043,818**	**3,234**	**16,828**	**3,063,880**

(millions of Uzbek Soums)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**49,252**	**1,493**	**3,930**	**54,675**
New assets originated or purchased	37,170	-	-	**37,170**
Assets repaid	(2,338)	(80)	(492)	**(2,910)**
Transfers to Stage 1	2,729	(787)	(1,942)	**-**
Transfers to Stage 2	(454)	454	-	**-**
Transfers to Stage 3	(845)	(596)	1,441	**-**
Impact on period end ECL of exposures transferred between stages during the period	(2,706)	247	3,037	**578**
Unwinding of discount (recognized in interest revenue)	-	-	217	**217**
Net remeasurement of loss allowance	(38,497)	(25)	(121)	**(38,643)**
At 31 December 2018	**44,311**	**706**	**6,070**	**51,087**

During 2019, the Group recognized loss from loans bearing interests lower than market interest in total amount of UZS 188,565 (2018: UZS 129,677).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, third party guarantees, vehicles and cash deposits;
- For retail lending, mortgages over residential properties and vehicle;
- For letters of credit and guarantees cash deposits.

The Group also obtains guarantees from Government of the Republic of Uzbekistan for loans to the government related entities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2019 and 2018 would have been higher by:

	2019	*2018*
Private companies	212,146	92,588
State companies	83,392	70,758
Loans to individuals	5,573	2,797
	301,111	**166,143**

During the years ended 31 December 2019 and 2018, the Group received financial and non-financial assets by taking possession of collateral it held as security and calling on guarantees and similar credit enhancements. As at 31 December 2019 and 2018 such assets amounting to UZS 14,476 and UZS 4,135 (see Note 14), respectively, are included in other assets. The management of the Group expects to dispose these assets within 12 months period through public auctions.

Concentration of loans to customers

As of 31 December 2019, the Group had a concentration of loans represented by UZS 26,851,657 due from ten largest borrowers which represents 49% of gross loan portfolio (2018: UZS 27,996,453 or 60%). An allowance of UZS 819,784 (2018: UZS 833,009) was recognized against these loans. The majority of these loans is guaranteed by the Government of the Republic of Uzbekistan and/or financed by the Fund for Reconstruction and Development of the Republic of Uzbekistan.

(millions of Uzbek Soums)

8. Loans to customers (continued)

Concentration of loans to customers (continued)

As at 31 December 2019 and 2018, a significant amount of loans is granted to companies operating in the Republic of Uzbekistan, which represents a significant geographical concentration in one region.

Loans are made principally within the Republic of Uzbekistan and the Russian Federation in the following industry sectors:

	2019	*2018*
Transport and communication	18,558,532	17,040,287
Manufacturing	14,910,171	16,600,683
Government social structure	7,905,070	4,940,454
Individuals	4,560,348	3,063,880
Trade and catering	2,845,057	1,925,494
Construction	2,578,144	1,037,021
Agriculture	1,397,323	1,364,421
Housing and Utilities	375,132	272,348
Other	2,947,581	1,349,090
Total loans to customers	**56,077,358**	**47,593,678**
Less: allowance for impairment	(1,903,350)	(1,568,196)
Loans to customers	**54,174,008**	**46,025,482**

9. Investment securities

Investment securities comprises:

Debt securities at amortised cost	***2019***
Gross carrying value as at 1 January	-
New assets originated or purchased	163,769
At 31 December	**163,769**

Debt securities at amortised cost	***2019***
ECLs as at 1 January	-
New assets originated or purchased	951
At 31 December	**951**

State bonds comprise debt securities issued by the Ministry of Finance of the Republic of Uzbekistan at 15% interest rate with original maturity of 2 years.

Equity securities at FVOCI comprise equity investments in:

	2019	*2018*
JSC Uzbek Korean Development bank	24,163	12,311
JSC Tashkent Mechanical Plant	12,520	-
JSC Uzmetkombinat	7,715	9,234
JSC Kafolat	4,160	4,092
Republican Stock Exchange „Tashkent“	2,838	2,838
JSC Qurilishmashleasing	1,500	1,500
Uzbekinvest NEIIC	935	9,274
JSC Republican Currency Exchange	119	177
JSC Microcreditbank	-	4,762
JSC Uzmedleasing	-	440
JSC Qurilish-Leasing	-	394
Other	1,574	2,740
Equity securities at FVOCI	**55,524**	**47,762**

(millions of Uzbek Soums)

9. Investments securities (continued)

All balances of investment securities are allocated to Stage 1. An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost is as follows:

Debt securities at amortised cost	***2019***
Gross carrying value as at 1 January	-
New assets originated or purchased	163,769
At 31 December	**163,769**

Debt securities at amortised cost	***2019***
ECLs as at 1 January	-
New assets originated or purchased	951
At 31 December	**951**

10. Investments in associates

The following major associates are accounted for under the equity method:

31 December 2019	***Ownership/ voting, %***	***Principal place of business***	***Country of incorporation***	***Nature of activities***	***Carrying Value***
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Construction	85,000
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	53,644
O'zbegim otlari LLC	42%	Tashkent	Uzbekistan	Horse Breeding	52,000
Yangi Zamon Bino LLC	25%	Tashkent	Uzbekistan	Construction	36,076
Other associates, individually immaterial		Other	Other	Other	12,815
Total value of investments in associates					**239,535**

31 December 2018	***Ownership/ voting, %***	***Principal place of business***	***Country of incorporation***	***Nature of activities***	***Carrying Value***
Navro'z Bogi LLC	50%	Tashkent	Uzbekistan	Construction	85,000
O'zbegim otlari LLC	42%	Tashkent	Uzbekistan	Horse Breeding	52,000
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	45,068
Toy City LLC	25%	Tashkent	Uzbekistan	Manufacturing	1,112
Other associates, individually immaterial		Other	Other	Other	6,673
Total value of investments in associates					**189,853**

(millions of Uzbek Soums)

10. Investments in associates (continued)

The summarised financial information of material associates is presented below:

Uzbek Leasing International JSC	*2019*	*2018*
Current assets	53,774	74,906
Non-current assets	450,738	345,337
Total assets	**504,512**	**420,243**
Current liabilities	28,305	26,198
Non-current liabilities	350,585	286,738
Total liabilities	**378,890**	**312,937**
Net assets	**125,622**	**107,307**
The Group's share of ownership	42%	42%
Carrying value of the investment in the associate	**52,761**	**45,069**

Uzbek Leasing International JSC	*2019*	*2018*
Gross profit	50,866	48,733
Profit for the year	**23,890**	**19,804**
Share of the Group in the profit of company	**10,034**	**8,318**

O'zbegim Otlari LLC	*2019*	*2018*
Current assets	112,227	108,511
Non-current assets	8,645	8,048
Total assets	**120,873**	**116,559**
Current liabilities	4,895	1,591
Non-current liabilities	-	-
Total liabilities	**4,895**	**1,591**
Net assets	**115,977**	**114,968**
The Group's share of ownership	42%	42%
Carrying value of the investment in the associate	**48,710**	**48,286**

Navro'z Bog'i LLC	*2019*	*2018*
Current assets	8,464	202
Non-current assets	152,484	160,462
Total assets	**160,948**	**160,664**
Current liabilities	310	26
Non-current liabilities	-	-
Total liabilities	**310**	**26**
Net assets	**160,638**	**160,638**
The Group's share of ownership	50%	50%
Carrying value of the investment in the associate	**80,319**	**80,319**

Navro'z Bog'i LLC	*2019*	*2018*
Gross profit	255	-
Profit for the year	**166**	**9,196**
Share of the Group in the profit of company	**83**	**4,598**

(millions of Uzbek Soums)

10. Investments in associates (continued)

The Group's share of profit or loss and other comprehensive income of individually immaterial associates is as follows:

	2019	*2018*
Profit for the year	6,897	1,287
Other comprehensive income	-	-
Total comprehensive income for the year	**6,897**	**1,287**

As at 31 December 2019, there were no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
Cost					
31 December 2017	**274,331**	**65,389**	**262,617**	**-**	**602,337**
Additions	72,555	435,484	233,704	3,488	**745,231**
Disposals and write-offs	(29,634)	-	(10,648)	(192)	**(40,474)**
31 December 2018	**317,252**	**500,873**	**485,673**	**3,296**	**1,307,094**
Additions	13,111	296,049	524,646	8,178	**841,984**
Disposal and write-offs	(17,991)	(163,176)	(124,939)	(3,705)	**(309,811)**
Transfers	105,244	(223,997)	118,753	-	**-**
31 December 2019	**417,616**	**409,749**	**1,004,134**	**7,769**	**1,839,267**

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
Accumulated depreciation					
31 December 2017	**(190,313)**	**-**	**(178,111)**	**-**	**(368,424)**
Charge for the year	(18,623)	-	(26,660)	(262)	**(45,545)**
Disposals and write-offs	5,921	-	13,327	192	**19,440**
31 December 2018	**(203,015)**	**-**	**(191,444)**	**(70)**	**(394,529)**
Charge for the year	(18,169)	-	(72,186)	(114)	**(90,469)**
Disposals and write-offs	12,201	-	15,700	1,302	**29,202**
31 December 2019	**(208,984)**	**-**	**(247,930)**	**1,118**	**(455,796)**
Net book value					
31 December 2018	**114,237**	**500,873**	**294,229**	**3,226**	**912,565**
31 December 2019	**208,632**	**409,749**	**756,204**	**8,887**	**1,383,471**

Included in depreciation charge for the year is depreciation of subsidiaries of the Bank in the amount of UZS 46,818 which is recorded in the line item "Other operating expenses of subsidiaries" in the consolidated statement of profit or loss.

(millions of Uzbek Soums)

12. Taxation

The corporate income tax expense comprises:

	2019	*2018*
Current income tax	207,330	105,109
Deferred tax charge/(credit) − origination and reversal of temporary differences	215	(45,636)
Income tax expense	**207,545**	**59,473**

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Uzbekistan and other countries where the Group operates, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019 and 2018 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The corporate income tax rate applicable to the majority of the Bank's income comprised 20% and 22% for 2019 and 2018, respectively (20% for 2019 and 2018 in the Russian Federation).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2019	*2018*
Profit before tax	**997,634**	**848,422**
Statutory tax rate	20%	22%
Theoretical income tax expense at the statutory rate	**199,527**	**186,653**
Non-deductible expenditures	14,298	13,685
Income tax privileges	(2,307)	(1,847)
Effect of tax rate different from the rate of 20%	(24,306)	(39,396)
Effect of change in tax rate	(4,887)	(1,413)
Tax effect of other permanent differences	25,220	(98,209)
Income tax expense	**207,545**	**59,473**

	2019	*2018*
Beginning of the year	**244,351**	**198,715**
Change in deferred income tax balances recognized in consolidated profit	(215)	45,636
End of the year	**244,136**	**244,351**

(millions of Uzbek Soums)

12. Taxation (continued)

Deferred tax assets and liabilities as of 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences		*Origination and reversal of temporary differences*	
Tax effect of deductible temporary differences	***1 January 2018***	***In the statement of profit or***	***31 December 2018***	***In the statement of profit or***	***31 December 2019***
Allowance for loan impairment	193,772	(1,151)	192,621	(901)	191,720
Investment securities	15,866	(15,866)	-	-	-
Other borrowed funds	-	-	-	4,284	4,284
Amounts due from credit institutions	-	-	-	22,214	22,214
Property and equipment	8,053	34,070	42,123	(33,740)	8,383
Other liabilities	-			33,450	33,450
Other provision and accruals	10,403	30,340	40,743	(10,668)	30,075
Deferred tax asset	**228,094**	**47,393**	**275,487**	**14,639**	**290,126**
Tax effect of taxable temporary differences					
Investment securities	2,689	706	3,395	10,260	13,655
Derivative financial assets	-	-	-	20,502	20,502
Amounts due to credit institutions	-	-	-	6,249	6,249
Other provisions and accruals	26,690	1,052	27,741	(22,158)	5,583
Deferred tax liability	**29,379**	**1,758**	**31,136**	**14,854**	**45,990**
Net deferred tax asset	**198,715**	**45,636**	**244,351**	**(215)**	**244,136**

13. Credit loss expense

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2019:

	Note	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	(4,711)	**-**	**-**	**(4,711)**
Amounts due from credit institutions	6	1,371	-	-	**1,371**
Loans to customers at amortised cost	8	119,667	44,408	171,080	**335,155**
Debt securities measured at amortised cost	9	951	-	-	**951**
Other financial assets	14	45	-	13,561	**13,606**
Financial guarantees	27	(89,042)	-	-	**(89,042)**
Loan commitments	27	7,793	-	-	**7,793**
Letters of credit	27	6,522	-	-	**6,522**
Total credit loss expense		**42,596**	**44,408**	**184,641**	**271,645**

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Cash and cash equivalents	5	(410)	**-**	**-**	**(410)**
Amounts due from credit institutions	6	2,380	-	-	**2,380**
Loans to customers at amortised cost	8	(589,714)	(59,788)	47,368	**(602,134)**
Other financial assets	14	3,579	37	9,657	**13,273**
Financial guarantees	27	31,981	-	-	**31,981**
Loan commitments	27	111	-	-	**111**
Letters of credit	27	(1,875)	-	-	**(1,875)**
Total credit loss (reversal)/expense		**(553,948)**	**(59,751)**	**57,025**	**(556,674)**

(millions of Uzbek Soums)

14. Other assets and liabilities

Other assets comprise:

	2019	***2018***
Other financial assets		
Trade receivables	44,345	30,490
Receivables as a result of court proceedings	9,115	3,263
Other financial assets	9,985	4,542
	63,445	**38,295**
Less allowance for impairment of other financial assets	(29,686)	(16,080)
Total other financial assets	**33,759**	**22,215**
Other non-financial assets		
Prepayments for materials and services	71,776	119,935
Other property	64,043	49,812
Inventory	58,736	34,805
Repossessed assets	14,746	4,135
Other non-financial assets	71,708	32,935
	281,009	**241,622**
Less allowance for impairment of other non-financial assets	(387)	(22,253)
Total other assets non-financial assets	**280,622**	**219,369**
Other assets	**314,381**	**241,584**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2019 is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL at 1 January 2019	**4,837**	**632**	**10,611**	**16,080**
ECL charge	45	-	13,561	**13,606**
At 31 December 2019	**4,882**	**632**	**24,172**	**29,686**

An analysis of changes in the ECLs for other financial assets for the year ended 31 December 2018 is as follows:

	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL at 1 January 2018	**1,258**	**595**	**955**	**2,807**
ECL charge	3,579	37	9,657	**13,273**
At 31 December 2018	**4,837**	**632**	**10,611**	**16,080**

Other liabilities comprise:

	2019	***2018***
Other financial liabilities		
Accounts payable	173,053	172,164
Payables to employees	22,684	17,193
Total other financial liabilities	**195,737**	**189,357**
Other non-financial liabilities		
Taxes payable, other than income tax	5,678	14,558
Unearned revenue	1,204	10,059
Contingent liability for litigations	14,275	5,462
Other	25,304	31,875
Total other non-financial liabilities	**46,462**	**61,954**
Allowance for credit related liabilities and financial guarantees (Note 27)	51,780	126,507
Other liabilities	**293,979**	**377,818**

(millions of Uzbek Soums)

15. Amounts due to the CBU and the Government

Amounts due to the Central Bank of the Republic of Uzbekistan consist of the following:

	2019	*2018*
Correspondent accounts of the CBU	1,695,207	494,843
Funds received from the CBU for lending purposes	-	2,845
Amounts due to the CBU and Government	**1,695,207**	**497,688**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2019	*2018*
Correspondent accounts with other banks	898,860	677,277
Time deposits	240,582	273,602
Amounts due to Credit Institutions	**1,139,442**	**950,879**

Included in time deposits is a deposit placed by JSCB “Turonbank” in the amount of UZS 96,311 (equivalent of USD 10,129,985) at interest rate of 3% with a maturity of 5 years and deposits placed by JSC «Xalq Bank of the Republic of Uzbekistan» in the amount of UZS 90,000 at interest rate of 16% with a maturity of 3 years.

17. Amounts due to customers

The amounts due to customers include the following:

Amounts due to customers include accounts with the following types of customers:

	2019	*2018*
Current accounts	9,079,076	8,647,083
Time deposits	6,428,165	3,224,811
Amounts due to customers	**15,507,241**	**11,871,894**
Held as security against letters of credit	2,875,481	3,143,046

As at 31 December 2019 and 2018, customer accounts in the amount of UZS 7,598,307 and UZS 4,782,719 (49% and 40% of total customer accounts), respectively, were due to ten customers, which represents a significant concentration.

Amounts due to customers include accounts with the following types of customers:

	2019	*2018*
Private enterprises	5,436,424	4,644,587
State and budgetary	6,220,986	4,205,945
Individuals	3,739,821	2,755,557
Other	110,010	265,805
Amounts due to customers	**15,507,241**	**11,871,894**

(millions of Uzbek Soums)

17. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2019	*2018*
Manufacturing	4,472,072	2,242,636
Government social structure	3,816,122	880,888
Individuals	3,739,821	2,755,557
Transport and communication	1,714,313	2,334,084
Trading and catering	767,487	927,574
Financial sector	251,859	398,013
Construction	226,329	1,153,091
Agriculture	9,541	64,474
Defence activities	5,299	276,819
Other	504,397	838,758
Amounts due to customers	**15,507,241**	**11,871,894**

18. Debt securities issued

Debt securities issued consisted of the following:

	2019	*2018*
Certificates of deposit	110,158	110,158
Bonds	21,483	35,757
Debt securities issued	**131,641**	**145,915**

As of 31 December 2019 and 2018, certificates of deposit included certificates issued to the Fund of Guarantee Citizens' Deposits in Banks in the amount of UZS 110,158 with 6% interest rate.

19. Other borrowed funds

Other borrowed funds consisted of the followings:

	2019	*2018*
Eximbank of China	10,867,733	7,206,441
China Development Bank	4,730,138	2,886,414
Fund for Reconstruction and Development of the Republic of Uzbekistan	4,576,742	19,330,531
Ministry of Finance of the Republic of Uzbekistan	2,990,720	2,245,318
Natixis Bank	1,512,552	-
Deutsche Bank AG	1,241,643	1,587,430
Credit Suisse AG	1,057,616	-
Islamic Development Bank	992,798	1,015,030
Sumitomo Mitsui Banking Corporation	964,844	474,150
International Bank for Reconstruction and Development	616,193	891,857
European Bank for Reconstruction and Development	615,691	472,178
Foreign Economic Bank of Russia	557,853	-
Landesbank Baden-Wuerttemberg	467,722	291,883
Baobab Securities Limited	381,556	-
Gazprombank JSC	319,819	309,034
AKA Ausfuhrkredit-Gesellschaft mbH	316,267	-
"Yoshlar-Kelajagimiz" Fund	291,122	117,618
Asian Development Bank	201,522	171,941
Eximbank of Korea	190,386	-
Sberbank AG	97,059	-
Central Bank of the Republic of Uzbekistan	80,648	327,972
Instituto de Crédito Oficial	33,934	32,955
Landesbank Berlin AG	7,171	30,720
Societe Generale	-	47,578
Other	3,499	-
Other borrowed funds	**33,115,228**	**37,439,050**

(millions of Uzbek Soums)

19. Other borrowed funds (continued)

In January 2019, the Group received a loan from Eximbank of China of UZS 1,680,306 (equivalent to USD 200,000,000). The loan was provided for further lending to sub-borrowers for financing export-import operations between the Peoples Republic of China and the Republic of Uzbekistan. The amount of the borrowing is to be repaid in 60 months.

According to the agreement concluded with Fund for Reconstruction and Development of the Republic of Uzbekistan (FRDU) in March 2019, the Group received a loan of UZS 344,332. The loan is provided for further lending to small family businesses within the framework of the Program "Every family is an entrepreneur". The amount of the borrowing is to be repaid in 84 months with a grace period of 36 months.

In accordance with the Decree of the President of the Republic of Uzbekistan dated 9 October 2019 No. 4487, the Group returned previously received borrowings from FRDU in the amount of UZS 16,727,920. In relation to this, the Group derecognized and transferred loans in the same amount issued from FRDU funds to major clients operating in such industries as transport, metallurgy, energy and others.. Pursuant to the above-mentioned decree, borrowings of UZS 6,355,378 previously received from FRDU were transferred to the share capital as an increase in the share of ownership of the FRDU (see Note 21).

In 2019 the Group received loans from the Ministry of Finance of the Republic of Uzbekistan in the amount of UZS 507,252 for the purpose of financing development of preschool education institutions and construction of affordable residential buildings in rural areas under different state programs. The amount of the borrowing is to be repaid in 240 months.

In March 2019, the Group received a short-term loan from the Ministry of Finance of the Republic of Uzbekistan in the amount of UZS 781,607. The loan was provided for further lending to sub-borrowers engaged in cotton-processing industry to finance expenditures related to cotton grain production. The amount of the borrowing is to be repaid in 12 months.

In accordance with the loan agreement concluded in May 2019, the Group received a loan from Credit Suisse AG in the amount of UZS 973,196 (equivalent to EUR 100,000,000). The loan is provided for further lending to eligible sub-borrowers for trade finance and capital expenditure purposes. The amount of the borrowing is to be repaid in 12 months.

The borrowing agreements do not stipulate financial covenants except for the agreements with European Bank for Reconstruction and Development, Credit Suisse AG, Gazprombank JSC and China Development Bank. The Group is required to comply with certain financial covenants, non-compliance of which may give the lender a right to demand repayment. As at 31 December 2019, the Group has breached following covenants under the terms of the agreements with Gazprombank JSC:

- Cash and cash equivalents to total assets ratio;
- Liquid assets to total assets ratio.

As at 31 December 2019, due to breach of abovementioned covenants, the Group classified UZS 342,573 obtained under the agreements with Gazprombank JSC as a current liability, as it was subject to immediate repayment under the terms of contracts. The Management has had regular dialogues with lenders regarding the breaches of financial covenants and believes this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to take appropriate actions to enable repayment.

(millions of Uzbek Soums)

20. Subordinated loans

Subordinated loans consisted of the following:

	2019
International Bank for Reconstruction and Development	845,687
Ministry of Finance of the Republic of Uzbekistan	360,037
Asian Development Bank	253,652
Subordinated loans	**1,459,376**

In July 2019 the Group received subordinated loans from the Ministry of Finance of the Republic of Uzbekistan for the total amount of UZS 359,683 with an interest rate of 3% per annum maturing in October 2028-2032.

In May 2019 the Group received subordinated loans from the International Bank for Reconstruction and Development of UZS 830,546 (equivalent to USD 87,275,544) with an interest rate of 3% per annum maturing in September 2042.

In May 2019 the Group received a subordinated loan from the Asian Development Bank of UZS 252,945 (equivalent to USD 26,580,000) with an interest rate of 3% per annum maturing in November 2036.

21. Equity

Share capital

As at 31 December 2019 and 2018, authorized and paid share capital of the Group comprised UZS 11,582,700 and UZS 4,320,970, respectively. During 2019, the share capital of the Group increased in the amount of UZS 7,261,730 due to the following transactions:

In accordance with the Decree of the President of the Republic of Uzbekistan dated 9 October 2019 No. 4487, previously received borrowings from the Fund for Reconstruction and Development of the Republic of Uzbekistan (FRDU) in the amount of UZS 6,355,378 were transferred to the share capital as an increase in the share of ownership of the FRDU.

In accordance with the Decree of the President of the Republic of Uzbekistan dated 30 November 2019 No. 4540, UZS 906,352 were transferred from retained earnings as an increase in the share of ownership of the Ministry of Finance of the Republic of Uzbekistan.

22. Net interest income

Net interest income comprises:

	2019	*2018*
Financial assets measured at amortized cost		
Loans to customers	3,770,997	2,466,920
Cash equivalents	120,451	112,623
Amounts due from credit institutions	60,249	32,193
Investment securities	14,340	-
Interest revenue calculated using effective interest rate	**3,966,036**	**2,611,736**
Finance leases	5,045	8,832
Other interest revenue	**5,045**	**8,832**
Total interest revenue	**3,971,081**	**2,620,568**
Other borrowed funds	(1,530,095)	(932,769)
Amounts due to customers	(530,030)	(389,072)
Amounts due to credit institutions	(41,915)	(24,734)
Subordinated loans	(26,161)	-
Debt securities issued	(10,029)	(12,395)
Interest expense calculated using effective interest rate	**(2,138,230)**	**(1,358,970)**
Net interest income	**1,832,852**	**1,261,598**

(millions of Uzbek Soums)

23. Net fee and commission income

Net fee and commission income comprises:

	2019	*2018*
Settlement operations	200,742	168,837
Letters of credit and guarantee issuance	73,410	80,509
Foreign currency exchange operations	64,981	57,401
Foreign settlement operations	34,773	26,415
Cash operations	14,613	20,087
Operations with plastic cards	34,178	25,464
Other	24,094	12,418
Fee and commission income	**446,791**	**391,131**
Cash collection services	38,505	36,521
Operations with plastic cards	18,034	10,644
Settlement expenses	14,584	12,934
Conversion expenses	3,001	6,337
Commission expense for conducting operations on guarantees	6,582	7,029
Other	2,368	1,463
Fee and commission expense	**83,073**	**74,928**
Net fee and commission income	**363,718**	**316,203**

24. Personnel and operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Salaries and bonuses	421,063	279,494
Social security costs	94,909	65,459
Personnel expenses	**515,972**	**344,953**
Legal and consultancy	55,192	7,492
Security	46,100	33,336
Depreciation and amortization	50,654	45,545
Membership fee	30,766	53,010
Office supplies	18,749	13,710
Charity and sponsorship	17,863	37,809
Operating taxes	21,189	106,985
Maintenance	20,148	18,790
Occupancy and rent	13,670	9,171
Communications	6,945	6,034
Transportation	3,467	5,826
Business travel and related expenses	2,819	2,883
Penalties incurred	4,562	2,572
Other	62,801	35,657
Other operating expenses	**354,925**	**378,820**
Total operating expenses	**870,897**	**723,773**

25. Other income

	2019	*2018*
Gain from sale of investments	-	23,489
Gain on disposal of fixed assets	19,818	9,383
Rental Income	7,507	5,427
Fines and penalties	3,301	1,345
Other	5,366	4,147
Total	**35,992**	**43,791**

(millions of Uzbek Soums)

26. Changes in liabilities arising from financial activities

	Debt securities issued	*Other borrowed funds*	*Subordinated loans*	*Total liabilities from financing activities*
Carrying amount at 31 December 2017	**176,506**	**29,382,360**	**-**	**29,558,866**
Proceeds from issue		8,419,596	-	**8,419,596**
Redemption	(29,243)	(846,805)	-	**(876,048)**
Foreign currency translation	-	494,992	-	**494,992**
Other	(1,348)	(11,093)	-	**(12,441)**
Carrying amount at 31 December 2018	**145,915**	**37,439,050**	**-**	**37,584,965**
Proceeds from issue	-	18,778,808	1,346,861	**20,125,669**
Redemption	(14,274)	(4,923,235)	-	**(4,937,509)**
Capitalization of borrowings into equity (Note 21)	-	(6,355,378)	-	**(6,355,378)**
Derecognition of borrowings (Note 19)	-	(16,727,920)	-	**(16,727,920)**
Foreign currency translation	-	4,458,820	94,813	**4,553,633**
Other	-	445,083	17,702	**462,785**
Carrying amount at 31 December 2019	**131,641**	**33,115,228**	**1,459,376**	**34,706,245**

The "Other" line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

27. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December, the Group's commitments and contingencies comprised the following:

	2019	*2018*
Credit related commitments		
Letters of credit	5,790,913	6,079,041
Undrawn loan commitments	3,824,638	4,213,387
Financial guarantees	1,958,601	2,202,175
	11,574,152	**12,494,603**
Other commitments		
Performance guarantees	172,411	148,324
	172,411	**148,324**
Commitments and contingencies (before deducting collateral)	**11,746,563**	**12,642,927**
Cash coverage	(2,875,481)	(3,143,046)
Commitments and contingencies	**8,871,083**	**9,499,881**

(millions of Uzbek Soums)

27. Commitments and contingencies (continued)

An analysis of changes in the ECLs during the year ended 31 December 2019 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2019	**144**	**-**	**-**	**144**
New exposures	693	-	-	**693**
Amounts paid	7,100	-	-	**7,100**
At 31 December 2019	**7,937**	**-**	**-**	**7,937**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2019	**16,570**	-	-	**16,570**
New exposures	17,686	-	-	**17,686**
Amounts paid	(11,164)	-	-	**(11,164)**
At 31 December 2019	**23,092**	**-**	**-**	**23,092**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2019	**109,793**	**-**	**-**	**109,793**
Amounts paid	(1,732)	-	-	**(1,732)**
Changes to models and inputs used for ECL calculations	(87,310)	-	-	**(87,310)**
At 31 December 2019	**20,750**	**-**	**-**	**20,750**

An analysis of changes in the ECLs during the year ended 31 December 2018 is as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**33**	**-**	**-**	**33**
New exposures	142	**-**	**-**	**142**
Amounts paid	(31)	**-**	**-**	**(31)**
At 31 December 2018	**144**	**-**	**-**	**144**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**18,445**	-	-	**18,445**
New exposures	5,625	-	-	**5,625**
Amounts paid	(7,500)	-	-	**(7,500)**
At 31 December 2018	**16,570**	**-**	**-**	**16,570**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**77,812**	**-**	**-**	**77,812**
New exposures	31,981	-	-	**31,981**
At 31 December 2018	**109,793**	**-**	**-**	**109,793**

Commitments on loans and unused credit lines include 3,154,800 UZS or 82% of commitments that will be satisfied from borrowings of the Fund for Reconstruction and Development of the Republic of Uzbekistan and foreign banks (2018: UZS 4,200,961 or 99%).

(millions of Uzbek Soums)

27. Commitments and contingencies (continued)

Legal

From time to time and in the normal course of business, claims against the Group can be received from customers and counterparties. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Commercial legislation of the Republic of Uzbekistan and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management’s judgment of the Group’s business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment

The banking sector in the Republic of Uzbekistan is impacted by legal, financial and regulatory reforms. Large state-owned banks of the Republic of Uzbekistan act as representatives of the state in economic development. Government allocates funds from the state budget, which through the banks, go to various government agencies and other public and private companies.

The Uzbek economy has been impacted by government’s currency reforms, which resulted in significant devaluation of Uzbek Soum. Prospects for future economic stability in the Republic of Uzbekistan largely depend upon the effectiveness of economic measures undertaken by the Government, as well as the development of legal and regulatory frameworks that are beyond the control of the Bank. The Bank's financial condition and the results of its activities will be further impacted by political and economic reforms in Uzbekistan, including the application of existing and future legislation and tax regulations that have a significant impact on the financial markets of the Republic of Uzbekistan and the economy as a whole. Management is unable to predict all changes that could affect the banking sector as a whole and on the financial position of the Bank in particular.

28. Risk management

Introduction

Risk is inherent in the Group’s activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group’s continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group’s strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

(millions of Uzbek Soums)

28. Risk management (continued)

Introduction (continued)

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling

The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Group. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury

Bank Treasury is responsible for managing the Group’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal audit

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group’s compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for expected credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more detail).

Excessive risk concentration

(millions of Uzbek Soums)

28. Risk management (continued)

Introduction (continued)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

(millions of Uzbek Soums)

28. Risk management (continued)

Credit risk (continued)

Stage 1:	When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Group records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Group;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- The debtor requesting prolongation or restructing payment schedule

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Internal rating and PD estimation process

The Group's independent Credit Risk Department operates its internal rating models. The Group runs separate models for its key portfolios in which its customers are rated from 1 to 5 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

(millions of Uzbek Soums)

28. Risk management (continued)

Credit risk (continued)

The Group's internal credit rating grades are as follows:

Internal rating grade	*International external rating agency (Fitch) rating*	*Internal rating description*	*Lifetime PD*
1	AA+ to AAA AA A+ to AA-	High grade	0-2%
2	A- BBB+ BBB BBB- BB+	Standard grade	2-12%
3	BB- to BB B- to B+ CCC to CCC-	Sub-standard grade	12-100%
4-5	D	Impaired	100%

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default

For corporate lending assets, LGD values are assessed at least quarterly by account managers and reviewed and approved by the Group's credit risk department.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

(millions of Uzbek Soums)

28. Risk management (continued)

Credit risk (continued)

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Group calculates ECLs either on a collective or on an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- Stage 3 assets, with exposure greater than UZS 200 000;

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's small business lending;
- Stage 1 and 2 retail mortgages and consumer lending and Stage 1 corporate lending portfolio;

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower's industry.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Inflation rates;
- Unemployment rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are material.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

(millions of Uzbek Soums)

28. Risk management (continued)

Credit risk (continued)

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt burden on a borrower.

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch Ratings, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group’s credit rating system.

31 December 2019	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	4,200,769	2,236,824	-	-	**6,437,593**
Amounts due from credit institutions	6	Stage 1	256,816	1,520,692	-	-	**1,777,507**
Loans to customers at amortised cost	8						
- State companies		Stage 1	20,310,228	506,374	47,838	-	**20,864,439**
		Stage 2	1,634	810	1	-	**2,445**
		Stage 3	-	-	-	414,202	**414,202**
- Private companies		Stage 1	15,970,024	965,076	100,316	-	**17,035,416**
		Stage 2	401,063	179,335	27,615	-	**608,012**
		Stage 3	-	-	-	873,437	**873,437**
- State budget or local authorities		Stage 1	7,866,884	950,898	-	-	**8,817,782**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Gross investment in finance lease		Stage 1	951,968	-	-	-	**951,968**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Non-banking financial institutions		Stage 1	87,052	-	-	-	**87,052**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Individuals		Stage 1	4,313,912	137,741	34,287	-	**4,485,940**
		Stage 2	10,512	14,012	-	-	**24,524**
		Stage 3	-	-	-	8,791	**8,791**
Debt investment securities	9						
- Measured at amortised cost		Stage 1	-	162,818	-	-	**162,818**
Other financial assets	14	Stage 1	42,834	-	-	-	**42,834**
		Stage 2	1,078	-	-	-	**1,078**
		Stage 3	19,533	-	-	-	**19,533**
Financial guarantees	27	Stage 1	1,897,757	5,341	-	-	**1,903,098**
Undrawn loan commitments	27	Stage 1	3,824,638	-	-	-	**3,824,638**
Letters of credit	27	Stage 1	5,790,913	-	-	-	**5,790,913**
			65,947,613	**6,679,921**	**210,057**	**1,296,430**	**74,134,021**

(millions of Uzbek Soums)

28. Risk management (continued)

Credit risk (continued)

31 December 2018	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	5,245,312	800,393	-	-	**6,045,705**
Amounts due from credit institutions	6	Stage 1	368,165	1,523,835	-	-	**1,892,000**
Loans to customers at amortised cost	8						
- State companies		Stage 1	22,384,680	555,841	52,511	-	**22,993,032**
		Stage 2	223,389	110,728	146	-	**334,263**
		Stage 3	-	-	-	267,514	**267,514**
- Private companies		Stage 1	11,619,768	702,188	72,990	-	**12,394,946**
		Stage 2	216,836	96,958	14,930	-	**328,724**
		Stage 3	-	-	-	154,669	**154,669**
- State budget or local authorities		Stage 1	4,906,806	593,103	-	-	**5,499,909**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Gross investment in finance lease		Stage 1	961,621	-	-	-	**961,621**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Non-banking financial institutions		Stage 1	78,011	-	-	-	**78,011**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	-	**-**
- Individuals		Stage 1	2,884,480	92,100	22,926	-	**2,999,506**
		Stage 2	1,084	1,445	-	-	**2,529**
		Stage 3	-	-	-	10,758	**10,758**
Other financial assets	14	Stage 1	25,854	-	-	-	**25,854**
		Stage 2	651	-	-	-	**651**
		Stage 3	11,790	-	-	-	**11,790**
Financial guarantees	27	Stage 1	1,960,444	28,435	-	-	**1,988,879**
Undrawn loan commitments	27	Stage 1	4,213,387	-	-	-	**4,213,387**
Letters of credit	27	Stage 1	6,079,041	-	-	-	**6,079,041**
			61,181,318	**4,505,026**	**163,503**	**432,941**	**66,282,789**

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

(millions of Uzbek Soums)

28. Risk management (continued)

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Uzbekistan.

	2019			
	Republic of Uzbekistan	*OECD*	*CIS and other foreign countries*	*Total*
Assets				
Cash and cash equivalents	2,766,527	2,839,651	1,395,421	**7,001,599**
Amounts due from credit institutions	1,277,659	256,815	243,032	**1,777,507**
Derivative financial assets	102,510	-	-	**102,510**
Loans to customers	54,055,674	-	118,334	**54,174,008**
Investment securities	218,342	-	-	**218,342**
Other financial assets	33,759	-	-	**33,759**
	58,454,471	**3,096,466**	**1,756,787**	**63,307,725**
Liabilities				
Amounts due to CBU and Government	1,695,207	-	-	**1,695,207**
Amounts due to the credit institutions	792,809	4	346,628	**1,139,442**
Amounts due to customers	15,477,598	-	29,643	**15,507,241**
Debt securities issued	131,641	-	-	**131,641**
Other borrowed funds	9,047,896	7,958,397	16,108,935	**33,115,228**
Subordinated loans	360,037	845,687	253,652	**1,459,376**
Other financial liabilities	195,737	-	-	**195,737**
	27,700,925	**8,804,088**	**16,738,858**	**53,243,872**
Net assets/(liabilities)	**30,753,546**	**(5,707,622)**	**(14,982,071)**	**10,063,853**

	2018			
	Republic of Uzbekistan	*OECD*	*CIS and other foreign countries*	*Total*
Assets				
Cash and cash equivalents	801,529	2,584,194	3,228,431	**6,614,154**
Amounts due from credit institutions	1,334,136	368,165	189,699	**1,892,000**
Loans to customers	45,836,144	-	189,338	**46,025,482**
Investment securities	47,262	-	500	**47,762**
Other financial assets	22,215	-	-	**22,215**
	48,041,286	**2,952,359**	**3,607,968**	**54,601,613**
Liabilities				
Amounts due to the CBU	497,688	-	-	**497,688**
Amounts due to the credit institutions	312,627	-	638,252	**950,879**
Amounts due to customers	11,776,530	-	95,364	**11,871,894**
Debt securities issued	145,915	-	-	**145,915**
Other borrowed funds	21,059,936	4,000,692	12,378,422	**37,439,050**
Other financial liabilities	189,357	-	-	**189,357**
	33,982,053	**4,000,692**	**13,112,038**	**51,094,783**
Net assets/(liabilities)	**14,059,233**	**(1,048,333)**	**(9,504,070)**	**3,506,830**

(millions of Uzbek Soums)

28. Risk management (continued)

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposits withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department controls these types of risks by means of maturity analysis, determining the Group’s strategy for the next financial periods. Current liability is managed by the Treasury Department, which deals in the money markets for current liquidity and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on customers’ and banking operations, which is part of assets/liabilities management process. The Board of Management of the Group sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity position is assessed and managed by the Group, based on certain liquidity ratio established by the CBU. According to the CBU regulations, current liquidity ratio must be for more than 30%. As at 31 December, these ratios were as follows:

	2019, %	*2018, %*
“Current Liquidity Ratio” (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	63.30%	55.26%

The tables below summarize the maturity profile of the Group’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

As at 31 December 2019	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	1,695,207	-	-	-	**1,695,207**
Amounts due to credit institutions	682,958	243,399	158,483	118,431	**1,203,272**
Gross settled derivative financial instruments					
- Contractual amounts payable	-	-	48,570	-	**48,570**
- Contractual amounts receivable	-	-	(135,465)	-	**(135,465)**
Amounts due to customers	7,552,510	4,666,113	2,901,448	1,797,461	**16,917,532**
Debt securities issued	1,468	134,871	-	-	**136,339**
Other borrowed funds	1,056,361	2,440,101	10,219,780	27,315,746	**41,031,987**
Subordinated loans	7,216	32,471	236,444	1,938,632	**2,214,763**
Other liabilities	195,737	-	318,644	-	**514,381**
Total undiscounted financial liabilities	**11,191,456**	**7,516,955**	**13,747,905**	**31,170,270**	**63,626,586**

As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	497,688	-	-	-	**497,688**
Amounts due to credit institutions	751,425	108,251	153,404	-	**1,013,081**
Amounts due to customers	6,862,266	3,282,256	1,608,499	345,446	**12,098,466**
Debt securities issued	2,569	7,706	152,773	-	**163,048**
Other borrowed funds	507,933	1,259,937	9,860,269	35,711,288	**47,339,427**
Other liabilities	189,357	-	-	-	**189,357**
Total undiscounted financial liabilities	**8,811,238**	**4,658,150**	**11,774,945**	**36,056,733**	**61,301,066**

(millions of Uzbek Soums)

28. Risk management (continued)

Liquidity risk (continued)

The Group's all commitments and contingencies are considered to be as on demand due to the fact that according to contractual terms they can be allocated to the earliest period in which they can be called. The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The amounts of financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Group has received significant funds from Eximbank of China, China Development Bank, Deutsche Bank, the Ministry of Finance of the Republic of Uzbekistan, Natixis Bank, Credit Suisse and other financial institutions (See Note 19). Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as it borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The Treasury Department also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate debt financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

(millions of Uzbek Soums)

28. Risk management (continued)

Market risk (continued)

Assets/Liabilities	*Increase in basis point 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of equity 2019*
Financial assets	+100	606,827	101,207
Financial liabilities		(505,620)	

Assets/Liabilities	*Decrease in basis point 2019*	*Sensitivity of net interest income 2019*	*Sensitivity of equity 2019*
Financial assets	-100	(606,827)	(101,207)
Financial liabilities		505,620	

Assets/Liabilities	*Increase in basis point 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
Financial assets	+100	516,579	111,916
Financial liabilities		(404,663)	

Assets/Liabilities	*Decrease in basis point 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
Financial assets	-100	516,579	111,916
Financial liabilities		(404,663)	

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department controls currency risk by managing the open currency position on the estimated basis of UZS devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Republic of Uzbekistan.

(millions of Uzbek Soums)

28. Risk management (continued)

Market risk (continued)

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	UZS	*USD (9,507.56)*	*EURO (10,624.7)*	*Other Currency*	*2019*
Financial assets					
Cash and cash equivalents	1,518,146	3,409,511	1,404,502	669,439	**7,001,599**
Amounts due from credit institutions	686,799	556,656	38,750	495,301	**1,777,507**
Loans to customers	18,852,503	27,922,453	6,225,212	1,173,841	**54,174,008**
Investment securities	194,179	24,163	-	-	**218,342**
Other financial assets	25,904	7,854	-	-	**33,759**
Total financial assets	**21,277,532**	**31,920,638**	**7,668,464**	**2,338,581**	**63,205,215**
Financial liabilities					
Amounts due to CBU and Government	-	517,737	1,171,897	5,573	**1,695,207**
Amounts due to credit institutions	279,884	689,869	154,892	14,797	**1,139,442**
Amounts due to customers	4,984,316	8,969,537	1,053,568	499,820	**15,507,241**
Debt securities issued	131,641	-	-	-	**131,641**
Other borrowed funds	3,724,081	22,806,727	5,457,665	1,126,756	**33,115,229**
Subordinated loans	360,037	1,099,339	-	-	**1,459,376**
Other financial liabilities	170,430	25,220	87	-	**195,737**
Total financial liabilities	**9,650,388**	**34,108,430**	**7,838,109**	**1,646,946**	**53,243,873**
Open balance sheet position	**11,627,143**	**(2,187,792)**	**(169,645)**	**691,636**	

	UZS	*USD (8,339.55)*	*EURO (9,479.57)*	*Other Currency*	*2018*
Financial assets					
Cash and cash equivalents	344,091	4,803,220	1,084,606	382,237	**6,614,154**
Amounts due from credit institutions	1,136,220	626,799	36,525	92,456	**1,892,000**
Loans to customers	9,830,052	31,186,866	4,406,874	601,690	**46,025,482**
Investment securities	41,376	6,386	-	-	**47,762**
Other financial assets	22,215	-	-	-	**22,215**
Total financial assets	**11,373,954**	**36,623,272**	**5,528,005**	**1,076,383**	**54,601,613**
					-
Amounts due to CBU and Government	31	104,118	392,740	799	**497,688**
Amounts due to credit institutions	274,544	550,789	37,634	87,912	**950,879**
Amounts due to customers	4,205,920	6,176,272	1,160,531	329,171	**11,871,894**
Debt securities issued	145,915	-	-	-	**145,915**
Other borrowed funds	2,267,381	30,506,830	4,022,337	642,502	**37,439,050**
Other financial liabilities	187,725	1,626	6	-	**189,357**
Total financial liabilities	**7,081,516**	**37,339,635**	**5,613,249**	**1,060,384**	**51,094,783**
Open balance sheet position	**4,292,438**	**(716,363)**	**(85,244)**	**15,999**	

(millions of Uzbek Soums)

28. Risk management (continued)

Market risk (continued)

Currency risk sensitivity

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the UZS, with all other variables held constant on the consolidated statement of profit or loss. The effect on equity does not differ from the effect on the consolidated statement of profit or loss. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2019*	*Effect on profit before tax 2019*	*Change in currency rate in % 2018*	*Effect on profit before tax 2018*
USD	22.1%	(41,494)	20.0%	(199,393)
EUR	21.4%	7,432	20.0%	7,611
USD	-22.1%	41,494	-20.0%	199,393
EUR	-21.4%	(7,432)	-20.0%	(7,611)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on profit before tax (as a result of a change in the fair value of equity instruments held at FVOCI at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in equity price in % 2019	*Effect on equity 2019*	*Change in equity price in % 2018*	*Effect on equity 2018*
Equity securities	+10%	5,512	+10%	4,712
Equity securities	-10%	(5,512)	-10%	(4,712)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

(millions of Uzbek Soums)

29. Fair value measurements

Fair value measurement procedures

The Group's investment committee determines the policies and procedures for both recurring fair value measurement, such as investment securities.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The investment committee also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

Fair value hierarchy

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		Fair value measurement using			
At 31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities - debt securities at FVOCI	31.12.2019	-	-	55,524	**55,524**
Derivative assets	31.12.2019	-	-	102,510	**102,510**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2019	7,001,599	-	-	**7,001,599**
Amounts due from credit institutions	31.12.2019	1,688,833	-	-	**1,688,833**
Investment securities measured at amortised cost	31.12.2019	162,818	-	-	**162,818**
Loans to customers	31.12.2019	-	-	53,053,125	**53,053,125**

		Fair value measurement using			
At 31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to CBU and Government	31.12.2019	-	-	1,695,207	**1,695,207**
Amounts due to credit institutions	31.12.2019	-	-	1,132,582	**1,132,582**
Amounts due to customers	31.12.2019	-	-	15,507,241	**15,552,582**
Debt securities issued	31.12.2019	-	-	131,641	**131,641**
Other borrowed funds	31.12.2019	-	-	32,312,769	**32,312,769**
Subordinated loans	31.12.2019	-	-	1,437,402	**1,437,402**

(millions of Uzbek Soums)

29. Fair value measurement (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
At 31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities	31.12.2018	-	-	47,762	**47,762**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2018	6,614,154	-	-	**6,614,154**
Amounts due from credit institutions	31.12.2018	1,892,000	-	-	**1,892,000**
Loans to customers	31.12.2018	-	-	46,025,482	**46,025,482**

		Fair value measurement using			
At 31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to CBU and Government	31.12.2018	-	-	497,688	**497,688**
Amounts due to credit institutions	31.12.2018	-	-	950,879	**950,879**
Amounts due to customers	31.12.2018	-	-	11,871,894	**11,871,894**
Debt securities issued	31.12.2018	-	-	145,915	**145,915**
Other borrowed funds	31.12.2018	-	-	37,439,050	**37,439,050**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group’s financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2019	***Fair value 2019***	***Unrecog-nised gain/(loss) 2019***	***Carrying value 2018***	***Fair value 2018***	***Unrecog-nised gain/(loss) 2018***
Financial assets						
Amounts due from credit institutions	1,777,507	1,688,833	(88,674)	1,892,000	1,860,230	(31,770)
Loans to customers	54,174,008	53,053,125	(1,120,883)	46,025,482	44,989,641	(1,035,841)
Investment securities − debt securities at amortised cost	162,818	156,024	(6,794)	-	-	-
Financial liabilities						
Amounts due to CBU and Government	1,695,207	1,695,207	-	497,688	497,688	-
Amounts due to credit institutions	1,139,442	1,132,582	6,860	950,879	948,202	2,677
Amounts due to customers	15,507,241	15,552,582	(45,341)	11,871,894	11,833,976	37,918
Debt securities	151,397	131,641	19,756	145,915	146,036	(121)
Other borrowed funds	33,115,228	32,312,769	802,459	37,439,050	36,858,413	580,637
Subordinated loans	1,459,376	1,437,402	21,974	-	-	-
Total unrecognised change in fair value			**(410,643)**			**(446,500)**

(millions of Uzbek Soums)

29. Fair value measurement (continued)

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. These contracts are generally Level 2 unless adjustments to yield curves or credit spreads are based on significant non-observable inputs, in which case, they are Level 3.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBU and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Movements in level 3 assets at fair value

The following tables show a reconciliation of the opening and closing amount of Level 3 assets and liabilities which are recorded at fair value:

	At 31 December 2018	*Total gain recorded in profit or loss*	*Purchases*	*At 31 December 2019*
Financial assets				
Derivative financial instruments	-	28,263	74,247	102,510
Investment securities − equity securities at FVOCI	47,762	-	7,762	55,524
Total level 3 financial assets	**47,762**	**28,263**	**82,009**	**158,034**

During the year ended 31 December 2019, there were no transfers between the levels of fair value hierarchy.

(millions of Uzbek Soums)

29. Fair value measurement (continued)

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2019	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Derivative financial instruments					
Foreign currency swaps	102,510	Discounted cash flow	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 2,050
Investment securities measured at FVOCI					
Equity securities	55,524	Discounted cash flow of dividend payments	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 1,110

31 December 2018	*Carrying amount*	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*	*Sensitivity of the input to fair value*
Investment securities measured at FVOCI					
Equity securities	47,762	Discounted cash flow of dividend payments	Discount rate	12%-18% (16%)	2% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent consideration liability by UZS 955

Gains or losses on level 3 financial instruments included in the profit or loss for the period comprise:

	2019			*2018*		
	Realised gains/ (losses)	*Unrealised gains/ (losses)*	*Total*	*Realised gains/ (losses)*	*Unrealised gains/ (losses)*	*Total*
Total gains or losses included in the profit or loss for the period	-	28,263	**28,263**	-	-	**-**

Unrealised gains are recognised in net gain from financial instruments at fair value through profit or loss.

(millions of Uzbek Soums)

30. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2019		
	Within one year	***More than one year***	***Total***
Cash and cash equivalents	7,001,599	-	**7,001,599**
Amounts due from credit institutions	1,777,507	-	**1,777,507**
Derivative financial assets	-	102,510	**102,510**
Loans to customers	13,315,161	40,858,847	**54,174,008**
Assets held for sale	10,262	-	**10,262**
Investment securities	-	218,342	**218,342**
Current income tax assets	23,590	-	**23,590**
Investments in associates	-	239,535	**239,535**
Property and equipment	-	1,383,471	**1,383,471**
Deferred income tax assets	-	244,136	**244,136**
Other assets	314,381	-	**314,381**
Total	**22,442,500**	**43,046,841**	**65,489,341**
Amounts due to the CBU and Government	1,695,207	-	**1,695,207**
Amounts due to credit institutions	982,158	157,284	**1,139,442**
Amounts due to customers	11,778,076	3,729,165	**15,507,241**
Debt securities issued	-	131,641	**131,641**
Other borrowed funds	2,459,168	30,656,060	**33,115,228**
Subordinated loans	16,201	1,443,175	**1,459,376**
Other liabilities	293,979	-	**293,979**
Total	**17,224,790**	**36,117,324**	**53,342,114**
Net	**5,217,710**	**6,929,516**	**12,147,227**

	2018		
	Within one year	***More than one year***	***Total***
Cash and cash equivalents	6,614,154	-	**6,614,154**
Amounts due from credit institutions	1,181,780	710,220	**1,892,000**
Loans to customers	7,139,146	38,886,336	**46,025,482**
Assets held for sale	20,755	-	**20,755**
Investment securities	-	47,762	**47,762**
Current income tax assets	10,993	-	**10,993**
Investments in associates	-	189,853	**189,853**
Property and equipment	-	912,565	**912,565**
Deferred income tax assets	-	244,351	**244,351**
Other assets	241,584	-	**241,584**
Total	**15,208,412**	**40,991,087**	**56,199,499**
Amounts due to the CBU and Government	497,688	-	**497,688**
Amounts due to credit institutions	892,720	58,159	**950,879**
Amounts due to customers	10,423,502	1,448,392	**11,871,894**
Debt securities issued	-	145,915	**145,915**
Other borrowed funds	6,321,657	31,117,393	**37,439,050**
Other liabilities	293,979	-	**293,979**
Total	**18,429,546**	**32,769,859**	**51,199,405**
Net	**(3,221,134)**	**8,221,228**	**5,000,094**

(millions of Uzbek Soums)

31. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with government-related entities

The Government of the Republic of Uzbekistan, acting through The Fund for Reconstruction and Development of the Republic of Uzbekistan and The Ministry of Finance of the Republic of Uzbekistan controls over the Group.

The Government of the Republic of Uzbekistan, directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government-related entities"). The Group enters into banking transactions with these entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions. These transactions comprise a large portion of the Group's transactions are disclosed below

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(millions of Uzbek Soums)

31. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2019					**2018**			
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Cash and cash equivalents	-	190,327	479,830	-	**7,001,599**	239,772	-	**-**	**6,614,154**
Due from credit institutions	-	931,395	-	-	**1,777,507**	915,603	-	5,500	**1,892,000**
Investment securities	-	184,017	-	-	**218,342**	39,536	-	**-**	**47,762**
Loans to customers	-	30,179,247	345,120	-	**54,174,008**	23,834,751	80	167	**46,025,482**
Allowance for impairment losses – loans to customers	-	(1,064,958)	(13,750)	-	**(1,942,121)**	(889,668)	-	-	**(1,568,196)**
Debt securities	-	110,000	-	-	**131,641**	110,000	-	-	**145,915**
Subordinated loans	-	359,683	-	-	**1,459,376**	-	-	-	**-**
Amounts due to CBU and Government	-	1,695,207	-	-	**1,695,207**	554,739	-	-	**497,688**
Customer accounts	-	3,839,553	22,479	-	**15,507,241**	3,188,288	21,824	260	**11,871,894**
Due to credit institutions	-	637,095	488	-	**1,139,442**	482,022	-	-	**950,879**
Other borrowed funds	2,051,876	20,862,255	-	-	**33,115,228**	23,076,835	-	-	**37,439,050**
Guarantees	-	1,636,778	3	-	**1,903,098**	1,404,508	-	-	**2,350,499**
Letters of credit	-	2,531,645	20,304	-	**5,790,913**	3,194,187	-	600	**6,079,041**

The income and expense arising from related party transactions are as follows:

	2019					**2018**			
	Parent	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***	***Government controlled entities***	***Associates***	***Key management personnel***	***Total category as per financial statement caption***
Interest income on loans	-	1,412,275	2,416	-	**3,770,997**	1,320,043	-	-	**2,466,920**
Impairment charge for loans	-	347,882	1,100	-	**940,219**	300,560	1	2	**600,164**
Interest expense on deposits	-	(201,940)	(1,124)	-	**(530,030)**	(59,916)	-	-	**(389,072)**
Interest expense on other borrowed funds	(47,031)	(310,056)	-	-	**(1,530,095)**	573,665	-	-	
Fee and commission income	-	118,295	69	-	**446,791**	62,134	510	-	**391,131**
Fee and commission expense	(7,275)	(19,786)	(514)	-	**(83,073)**	(7,029)	-	-	**(74,928)**
Operating expenses	-	-	-	(3,499)	**(354,925)**	-	-	(2,869)	**(378,820)**
Salaries and other benefits	-	-	-	(3,347)	**515,972**	-	-	(2,295)	**279,494**
Social Security Costs	-	-	-	(152)	**94,909**	-	-	(574)	**65,459**

(millions of Uzbek Soums)

32. Segment reporting

The Group’s operations are a single reportable segment.

The Group provides mainly banking services in the Republic of Uzbekistan. The Group identifies the segment in accordance with the criteria set in IFRS 8, *Operating Segments,* and based on the way of operations of the Group are regularly reviewed by the chief operating decision-maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker (“CODM”) has been determined as the Group’s Chairman of the Management Board. The CODM reviews the Group’s internal reporting in order to assess performance and allocate resources. The Management has determined a single operating segment being banking services based on these internal reports.

Substantially all the Group's operations and assets are located in the Republic of Uzbekistan.

33. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	*Principal place of business*	*Country of incorporation*	*Date of incorporation*	*Nature of activities*	*Ownership/ voting, %*	*Ownership/ voting, %*
					2019	***2018***
Asia Invest Bank CJSC	Moscow	Russia	1996	Banking	85%	85%
NBU Invest Group LLC	Tashkent	Uzbekistan	2008	Asset management	100%	100%
VIP Service NBU LLC	Tashkent	Uzbekistan	1999	Office maintenance	100%	100%
Tashkent Palace New LLC	Tashkent	Uzbekistan	2010	Hotel business	100%	100%
NBU Bunyodkor Invest LLC	Tashkent	Uzbekistan	2017	Construction	100%	100%
NBU Gazgan Invest LLC	Navai	Uzbekistan	2017	Asset management	100%	100%
NBU Samarkand Invest LLC	Samarkand	Uzbekistan	2017	Asset management	100%	100%
Shomonay Eco Teks LLC	Tashkent	Uzbekistan	2017	Textile	59%	93%
Zarbdor Textile LLC	Jizzakh	Uzbekistan	2017	Textile	53%	53%
Funny Kids World LLC	Tashkent	Uzbekistan	2017	Manufacturing	84%	84%
National Products LLC	Tashkent	Uzbekistan	2017	Manufacturing	99%	99%
Zomin Textile	Jizzakh	Uzbekistan	2017	Textile	74%	74%
Jayhun Gold Tex LLC	Karakalpakstan	Uzbekistan	2017	Textile	100%	100%
Sherobod Textile LLC	Sherobod	Uzbekistan	2017	Textile	61%	61%
Paxtakor Gold Textile LLC	Tashkent	Uzbekistan	2016	Textile	56%	56%
Marmarobod LLC	Navai	Uzbekistan	2019	Manufacturing	100%	-
United National Company LLC	Tashkent	Uzbekistan	2019	Manufacturing	74%	-
VIP Service NBU Guzari	Tashkent	Uzbekistan	1999	Hospitality	-	100%
NBU Bukhara Invest	Bukhara	Uzbekistan	2017	Asset management	-	100%
East Brick LLC	Tashkent	Uzbekistan	2017	Manufacturing	-	100%
O’yinchoqlar Fabrikasi LLC	Tashkent	Uzbekistan	2017	Manufacturing	-	84%
Toshkent Sifat Sut LLC	Tashkent	Uzbekistan	2017	Food	-	99%

(millions of Uzbek Soums)

34. Capital adequacy

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group’s capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBU in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the

Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's general policy in relation to risks related to capital management is reflected in the Bank's Capital Management Policy approved by the Supervisory Board and amended from time to time based on the Group's strategic goals and the regulatory requirements of the Central Bank of the Republic of Uzbekistan.

The following table analyses the Group’s regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

Capital adequacy ratio under Basel Capital Accord 1988

The Group’s capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2019 and 2018, comprised:

	2019	***2018***
Composition of regulatory capital:		
Tier 1 capital		
Share capital	11,582,700	4,320,970
Contribution from Shareholders	126,096	126,096
Retained earnings	190,358	335,635
	11,899,154	**4,782,701**
Tier 2 capital		
Subordinated debt	1,459,376	-
General provision	1,293,073	1,179,753
Other reserves	101,232	43,296
Total capital	**14,752,835**	**6,005,750**
Capital adequacy ratio:		
Tier 1 capital ratio	20%	15%
Total capital ratio	25%	18%

35. Events after the reporting period

New borrowings

In 2020, the Group signed long-term facility agreements with international financial institutions for the total amount of UZS 8,433,206 (equivalent to USD 887,000) for financing different projects.

COVID-19

Due to the recent rapid spread of the COVID-19 pandemic, many countries, including the Republic of Uzbekistan, introduced quarantine measures that significantly affected the level and scope of the business activity of market participants. It is expected that the pandemic itself and the mitigating measures may impact the performance of companies across industries. The Group regards the pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be reliably measured at the moment.

The Group’s management is currently assessing the possible impact of the changing micro- and macroeconomic environment on the Group’s financial position, performance and future cashflows.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated Financial Statements and
Independent Auditors' Report
For the Year Ended 31 December 2018

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

CONTENTS

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank For Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries (together referred to as "the Group") as at 31 December 2018 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting policies of the Republic of Uzbekistan and the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by the management on 30 April 2019.

On behalf of the Management Board:

Alisher Mirsoatov
Chairman of the Management Board

30 April 2019

Tashkent, Uzbekistan

Bobir Imomov
Chief Accountant

30 April 2019

Tashkent, Uzbekistan

Building a better
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Independent auditor's report

To the Board of Directors of National Bank of Foreign Economic Activity of the Republic of Uzbekistan

Opinion

We have audited the consolidated financial statements of National Bank of Foreign Economic Activity of the Republic of Uzbekistan and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Uzbekistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

30 April 2019
Tashkent, Uzbekistan.

Audit company "Ernst & Young MChJ"

«Ernst & Young» Audit Organization LLC
Certificate authorizing audit of banks registered by the Central Bank of the Republic of Uzbekistan Under #11 dated 23 august 2013

A. Azamov

Anvarkhon Azamov
Qualified auditor
Auditor qualification certificate authorizing audit of banks #11/4 dated 11 May 2017 issued by the Central Bank of the Republic of Uzbekistan

Head of Uzbekistan practice
«Ernst & Young» Audit Organization LLC

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of financial position

As of 31 December 2018

(Millions of Uzbek Soums)

	Notes	2018	2017
Assets			
Cash and cash equivalents	5	6,614,154	11,080,508
Amounts due from credit institutions	6	1,892,000	2,006,794
Loans to customers	7	46,025,482	34,521,563
Assets held for sale	8	20,755	195,858
Investment securities	9	47,762	60,437
Investments in associates	10	189,853	55,936
Property and equipment	11	912,565	233,913
Current income tax assets	12	10,993	8,616
Deferred income tax assets	12	244,351	198,715
Other assets	14	241,584	148,032
Total assets		**56,199,499**	**48,510,372**
Liabilities			
Amounts due to the CBU and the Government	15	497,688	571,014
Amounts due to credit institutions	16	950,879	1,909,557
Amounts due to customers	17	11,871,894	12,110,126
Debt securities issued	18	145,915	176,506
Liabilities directly associated with assets held for sale		-	18,024
Other borrowed funds	19	37,439,050	29,382,360
Other liabilities	14	377,818	71,022
Total liabilities		**51,283,244**	**44,238,609**
Equity	20		
Share capital		4,320,970	1,267,530
Contribution from shareholders		126,096	-
Retained earnings		335,635	2,918,224
Other reserves		43,296	60,748
Total equity attributable to shareholders of the Group		**4,825,997**	**4,246,502**
Non-controlling interests		90,258	25,261
Total equity		**4,916,255**	**4,271,763**
Total equity and liabilities		**56,199,499**	**48,510,372**

Signed and authorized for release on behalf of the Management Board:

Alisher Mirsoatov	**Chairman of the Management Board**
Bobir Imomov	**Chief Accountant**

30 April 2019

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of profit and loss

As of 31 December 2018

(Millions of Uzbek Soums)

	Notes	2018	2017
Continuing operations			
Interest income	21	2,620,568	1,389,969
Interest expense	21	(1,358,970)	(712,702)
Net interest income	21	**1,261,598**	**677,267**
Credit loss reversal / (expense)	13	600,164	(1,219,770)
Initial recognition adjustment on interest bearing assets	7	(129,677)	(121,579)
Net interest income after allowance for loan impairment and initial recognition of adjustment		**1,732,085**	**(664,082)**
Fee and commission income	23	391,131	338,299
Fee and commission expense	23	(74,928)	(59,062)
Net (loss) / gain from foreign currencies	22	(421,360)	2,935,243
Share of profit of associates	10	8,323	8,540
Dividend income		12,821	4,638
Allowance on credit related commitments and other impairment and provisions	13	(89,251)	(27,832)
Other operating income	25	76,086	38,063
Other operating expenses	25	(106,503)	(25,301)
Other income	24	43,791	102,922
Net non-interest (expense) / income		**(159,890)**	**3,315,510**
Operating expenses	25	(723,773)	(562,697)
Non-interest expense		**(723,773)**	**(562,697)**
Profit before income tax expense		**848,422**	**2,088,731**
Income tax (expense) / benefit	12	(59,473)	61,876
Profit for the year from continuing operations		**788,949**	**2,150,607**
Discontinued operations			
Loss for the period from discontinued operations		-	(14,783)
Net profit for the year		**788,949**	**2,135,824**
Attributable to:			
- shareholders of the Group		802,947	2,130,957
- non-controlling interests		(13,998)	4,867
		788,949	**2,135,824**

Signed and authorized for release on behalf of the Management Board:

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

30 April 2019

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of other comprehensive income

As of 31 December 2018

(Millions of Uzbek Soums)

	Note	2018	2017
Profit for the year		**788,949**	**2,135,824**
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translation of foreign operations		(20,532)	88,542
Other comprehensive loss after income tax		**(20,532)**	**88,542**
Total comprehensive income for the year		**768,417**	**2,224,366**
Attributable to:			
- shareholders of the Bank		785,495	2,206,501
- non-controlling interests		(17,078)	17,865
Total comprehensive income for the year		**768,417**	**2,224,366**

Signed and authorized for release on behalf of the Management Board:

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

30 April 2019

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of changes in equity

As of 31 December 2018

(Millions of Uzbek Soums)

		Attributable to shareholders of the Bank						
	Notes	*Share capital*	*Contribution from shareholders*	*Retained earnings*	*Other reserves*	*Total*	*Non-controlling interests*	*Total equity*
31-Dec-16		**698,867**	**-**	**787,266**	**(11,797)**	**1,474,336**	**806**	**1,475,142**
Contribution made by government in its capacity as shareholder		568,663	-	-	-	**568,663**	-	**568,663**
Issuance of share capital		-	-	-	-	**-**	7,581	**7,581**
Dividends paid		-	-	-	-	**-**	(991)	**(991)**
Special purpose tax privileges		-	-	-	(2,998)	**(2,998)**		**(2,998)**
Total comprehensive income for the year		-	-	2,130,958	75,543	**2,206,501**	17,865	**2,224,366**
31-Dec-17		**1,267,530**	**-**	**2,918,224**	**60,748**	**4,246,502**	**25,261**	**4,271,763**
Impact of adopting IFRS 9		-	-	(332,096)	-	**(332,096)**	-	**(332,096)**
Restated opening balance under IFRS 9		**1,267,530**	**-**	**2,586,128**	**60,748**	**3,914,406**	**25,261**	**3,939,667**
Capitalization of retained earnings	20	3,053,440	-	(3,053,440)	-	-	-	**-**
Issuance of share capital		-	-	-	-	-	82,075	**82,075**
Gain on initial recognition of borrowings received from Government	20	-	126,096	-	-	**126,096**	-	**126,096**
Total comprehensive income for the year		-	-	802,947	(17,452)	**785,495**	(17,078)	**768,417**
31-Dec-18		**4,320,970**	**126,096**	**335,635**	**43,296**	**4,825,997**	**90,258**	**4,916,255**

Signed and authorized for release on behalf of the Management Board:

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

30 April 2019

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of cash flow

As of 31 December 2018

(Millions of Uzbek Soums)

	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax from continuing operations		**848,422**	**2,088,731**
(Loss) from discontinued operations	26	-	(14,783)
Credit loss (reversal) / expense	13	(600,164)	1,219,770
Allowance on credit related commitments and other impairment and provisions	13	89,663	27,832
Initial recognition adjustment on interest bearing assets	7	129,677	121,579
Net unrealized loss / (gain) on foreign exchange operations		103,261	(2,494,017)
Depreciation and amortization	11	45,545	26,623
Share of profit from associates		(8,323)	(8,540)
Change in interest income accrual		502,350	(358,223)
Change in interest expenses accrual		13,205	79,145
Other non-cash accruals		5,103	79,052
Cash flows from operating activities before changes in operating assets and liabilities		**1,128,739**	**767,169**
Net (increase)/decrease in operating assets			
Due from banks	6	116,468	(119,963)
Loans to customers	7	(10,728,287)	(9,258,333)
Non-current assets held for sale	8	175,103	(76,117)
Other assets	14	17,416	(56,216)
Net (increase)/decrease in operating liabilities			
Amounts due to CBU and the Government	15	(324,266)	(338,089)
Due to banks	16	(958,536)	(582,582)
Customer accounts	17	(271,562)	3,467,822
Liabilities directly associated with assets held for sale	8	(18,024)	10,892
Other liabilities	14	181,918	(58,353)
Net cash flows used in operating activities before income tax		**(10,681,031)**	**(6,243,770)**
Income tax paid	12	(107,486)	(84,107)
Net cash used in operating activities		**(10,788,517)**	**(6,327,877)**

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

NATIONAL BANK FOR FOREIGN ECONOMIC ACTIVITY OF THE REPUBLIC OF UZBEKISTAN

Consolidated statement of cash flow (continued)

As of 31 December 2018

(Millions of Uzbek Soums)

	Note	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:			
Realisation / (Purchase) of investments available-for-sale		11,287	(10,425)
Purchase of investments in associates	10	(125,594)	(6,948)
Dividends received from associates and investments available-for-sale		12,821	4,638
Purchase of property, equipment and intangible assets	11	(724,197)	(119,310)
Proceeds from sale of investment securities held-to-maturity		1,813	(1,158)
Net cash flow from disposal of subsidiary		-	9,696
Net cash used in investing activities		**(823,870)**	**(123,507)**
Proceeds from debt securities issued		-	110,000
Redemption of debt securities issued	28	(29,243)	(30,401)
Contribution made by government	20	-	568,663
Net proceeds from other borrowed funds	28	7,572,791	6,517,818
Minority interest		51,001	24,455
Net cash from financing activities		**7,594,549**	**7,190,535**
Effect of changes in foreign exchange rate on cash and cash equivalents		(448,104)	5,005,248
Effect of expected credit losses on cash and cash equivalents		(412)	-
Net increase in cash and cash equivalents		**(4,466,354)**	**5,744,399**
CASH AND CASH EQUIVALENTS, beginning of year		11,080,508	5,336,109
CASH AND CASH EQUIVALENTS, end of year		**6,614,154**	**11,080,508**
Interest received		2,947,515	958,778
Interest paid		(1,696,011)	(795,049)
Non-Cash transactions:			
Non-cash increase in property and equipment		-	(17,107)

Signed and authorized for release on behalf of the Management Board:

Alisher Mirsoatov — **Chairman of the Management Board**

Bobir Imomov — **Chief Accountant**

30 April 2019

The accompanying notes on pages 7 to 65 are an integral part of these consolidated financial statements.

(Millions of Uzbek Soums)

1. Principal activities

The National Bank for Foreign Economic Activity of the Republic of Uzbekistan ("the Bank") is the parent company in the Group, it was formed by a Presidential Decree of the Republic of Uzbekistan on 7 September 1991. The bank founded as government specialized bank and wholly-owned by the Government of the Republic of Uzbekistan and is the part of the banking system of the Republic of Uzbekistan. The Bank operates under general banking license # 22 reissued by the Central Bank of Uzbekistan ("CBU") on 21 October 2017.

The Bank services the Government of the Republic of Uzbekistan, accepts deposits from the public and extends credits, transfers payments in the Republic of Uzbekistan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The main office is located in Tashkent city and it has14 regional branches (2017: 14) with 90 banking outlets (2017: 93) located in the territory of the Republic of Uzbekistan

The Bank's registered legal address is 101 Amir Timur Street, Tashkent, Republic of Uzbekistan.

The Bank participates in the state deposit insurance program. The State Deposit Insurance Fund guarantees repayment of 100% of individual deposits in case of business failure and revocation of the CBU banking license.

The Bank is a parent company of a banking group ("the Group") which consist of the following enterprises consolidated in the financial statements:

Subsidiary	*Ownership / voting, %*	*Principal place of business*	*Country of incorporation*	*Date of incorporation*	*Nature of activities*
Asia Invest Bank JSC		Moscow	Russia	1996	Banking
NBU Invest Group LLC		Tashkent	Uzbekistan	2008	Asset management
VIP Service NBU		Tashkent	Uzbekistan	1999	Office maintenance
VIP Service NBU Guzari		Tashkent	Uzbekistan	1999	Hospitality
Tashkent Palace New LLC		Tashkent	Uzbekistan	2010	Hotel business
NBU Bunyodkor Invest LLC		Tashkent	Uzbekistan	2017	Construction
NBU Bukhara Invest		Bukhara	Uzbekistan	2017	Asset management
NBU Samarkand Invest LLC		Samarkand	Uzbekistan	2017	Asset management
East Brick LLC		Tashkent	Uzbekistan	2017	Manufacturing
Shomanay Eco Teks		Tashkent	Uzbekistan	2017	Textile
Zarbdor Textile LLC		Jizzakh	Uzbekistan	2017	Textile
O'yinchoqlar Fabrikasi LLC		Tashkent	Uzbekistan	2017	Manufacturing
Funny Kids World LLC		Tashkent	Uzbekistan	2017	Manufacturing
National Products LLC		Tashkent	Uzbekistan	2017	Manufacturing
Toshkent Sifat Sut LLC		Tashkent	Uzbekistan	2017	Food
Zomin Textile		Jizzakh	Uzbekistan	2017	Textile
Jayhun Gold Tex LLC		Karakalpakstan	Uzbekistan	2017	Textile
Sherobod Textile LLC		Sherobod	Uzbekistan	2017	Textile
Paxtakor Gold Textile LLC		Tashkent	Uzbekistan	2016	Textile

The sole shareholder of the Bank is the Cabinet of Ministers of the Republic of Uzbekistan. The ultimate shareholder and ultimate controlling party of the Bank is the Government of the Republic of Uzbekistan.

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 30 April 2019.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

2. Basis of preparation (continued)

General (continued)

The Group maintains its accounting records in accordance with the respective laws of the Republic of Uzbekistan and the Russian Federation. These consolidated financial statements have been prepared from statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassification of certain assets and liabilities, income and expenses to appropriate financial statement caption.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 32.

Comparative information

Consolidated statement of financial position has been revised to combine certain items with similar nature:

Effect on consolidated statement of financial position as at December 31, 2017:

	As preivously	*Reclassifications*	*As reclassified*
Assets			
Investments securities available for sale	58,624	(58,624)	-
Investments securities held to maturity	1,813	(1,813)	-
Investments securities	-	60,437	60,437
Equity			
Investments available-for-sale fair value reserve	8,915	(8,915)	-
Other reserves	51,833	8,915	60,748

The above mentioned reclassifications did not have any impact on the consolidated financial statements of the Group. The management believes that such presentation is more transparent as they reflect the nature of such assets.

Following adoption of IFRS 9 (Note 3), the Group updated presentation of consolidated statement of profit or loss to present impairment losses determined in accordance with IFRS 9. Accordingly, the following reclassifications of impairment charges on other financial assets and financial guarantees, letters of credit and undrawn loan commitments have been made to 2017 consolidated statement of profit or loss to conform to the 2018 presentation.

	As preivously	*Reclassifications*	*As reclassified*
Allowance / (reversal of allowance) for loan impairment	1,219,770	(1,219,770)	-
Other impairment and provisions	27,832	(27,832)	-
Allowance on credit related commitments and			-
other impairment and provisions	-	27,832	27,832
Credit loss expense	-	1,219,770	1,219,770

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale securities have been measured at fair value.

These consolidated financial statements are presented in millions of Uzbek Soums (“UZS”), except per share amounts and unless otherwise indicated

3. Significant accounting policies

Changes in accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

► Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
► Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
► Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 30. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(Millions of Uzbek Soums)

3. Significant accounting policies

Changes in accounting policies

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL. A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		*Remeasurement*	*IFRS 9*	
Financial assets	***Ref***	***Category***	***Amount***	***ECL***	***Amount***	***Category***
Cash and cash equivalents		L&R	11,080,508	(4,400)	11,076,108	Amortised cost
Amounts due from credit institutions		L&R	2,006,794	(938)	2,005,856	Amortised cost
Investment securtities		AFS	60,437	-	60,437	FVPL
Loans to customers – amortised cost		L&R	34,521,563	(230,469)	34,291,094	Amortised cost
Total assets			**47,669,302**	**(235,807)**	**47,433,495**	

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	2,918,224
Recognition of IFRS 9 ECLs	(332,096)
Restated opening balance under IFRS 9 (1 January 2018)	**2,586,128**
Total change in equity due to adopting IFRS 9	**(332,096)**

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Loan loss allowance/ provision under IAS 39 / IAS 37 at 31 December 2017	***Re-measurement***	***ECL under IFRS 9 at 1-January 2018***
Impairment allowance for			
Loans and receivables at amortised cost	1,940,684	230,469	**2,171,153**
Cash and cash equivalents	-	4,400	**4,400**
Amounts due from credit institutions	-	938	**938**
	1,940,684	**235,807**	**2,176,491**
Financial guarantees	-	77,812	**77,812**
Letters of credit	-	18,445	**18,445**
Other commitments	-	32	**32**
	-	**96,289**	**96,289**
	1,940,684	**332,096**	**2,272,780**

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the majority of the Group's income are not impacted by the adoption of this standard. The Group adopted the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

3. Significant accounting policies (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group’s voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate. The Group’s share of its associates’ profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. Significant accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the asset’s contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term;
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

The expected frequency, value and timing of sales are also important aspects
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and undrawn loan commitments

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

The Group issues financial guarantees, letters of credit and loan commitments

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortised cost.

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or designated as investment securities available-for-sale. Such assets were carried at amortised cost using the effective interest method. Gains and losses were recognised in profit or loss when the loans and receivables were derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognised in other comprehensive income until the investment was derecognised or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method was recognised in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank Group did not reclassify any of its financial assets and liabilities in 2017.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Banks, excluding obligatory reserves, and amounts due from credit institutions that mature within 90 days of the date of origination and are free from contractual encumbrances.

3. Significant accounting policies (continued)

Obligatory reserves with the Central Banks

Obligatory reserves with the Central Banks represent the amount of mandatory reserves deposited with the Central Banks of the Republic of Uzbekistan and the Russian Federation, which are not available to finance the Group’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the CBU, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowed funds and subordinated loans. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss

Leases

The Group as lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

From 1 January 2018, the Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

3. Significant accounting policies (continued)

Renegotiated loans (continued)

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

Impairment of financial assets under IAS 39

Before 1 January 2018, the Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganisation and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost.

The Bank Group assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was reversed in consolidated statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognised in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Group’s internal credit grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Information on impairment assessment under IFRS 9 is presented in Note 30.

3. Significant accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Uzbekistan and of Russian Federation.Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Uzbekistan and Russia also have various operating taxes that are assessed on the Group’s activities. These taxes are included as a component of other operating expenses.

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are carried at restated cost after the change of functional currency adjustment applied on 1 January 2007, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-30
Furniture, fixtures and office equipment	2-5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Group's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Uzbekistan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

3. Significant accounting policies (continued)

Share capital

Share capital represents contributions made by the Cabinet Ministers of the Republic of Uzbekistan.

Other reserves

Other reserves represent the special purpose tax privileges and exchange difference on translation of foreign operations. The special purpose tax privileges are granted to newly established subsidiaries on the base of foreclosed property of former bankrupt entities and recognized by the Group at the time of their granting. At the time of utilization of these privileges, e.g. for financing capital expenditures, technological modernization and other reimbursements related to those subsidiaries, the special tax privileges are debited to the Group's retained earnings. The exchange difference on translation of foreign operations arises on translation of the financial statements of foreign consolidated entities.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar revenue and expense

From 1 January 2018, the Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest revenue by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest revenue” in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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3. Significant accounting policies (continued)

Recognition of income and expenses (continued)

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Group’s performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Dividend income

Revenue is recognised when the Group’s right to receive the payment is established.

Foreign currency translation

The consolidated financial statements are presented in UZS, which is the Group's presentation currency. The functional currency of the Group entities operating in the Republic of Uzbekistan is UZS, while the functional currencies of the Group entities operating in Russian Federation is Russian Ruble.

The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as net gain on foreign exchange operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBU exchange rate on the date of the transaction are included in net gain/(loss) on foreign exchange operations. The official CBU exchange rates at 31 December 2018 and 31 December 2017, were 8,339.55 UZS and 8,120.07 UZS to 1 USD, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into UZS at the rate of exchange ruling at the reporting date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of profit or loss.

3. Significant accounting policies (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Group.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

3. Significant accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group’s current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group’s accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 31.

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group’s internal credit grading model, which assigns PDs to the individual grades;
- The Group’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance for loan impairment recognised in consolidated statement of financial position at 31 December 2018 was 1,568,196 (2017 – 1,940,684). More details are provided in Notes 13 and 30.

Borrowings from financial institutions

The Group obtains long term financing from government, state and international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Group could source the funds from local lenders. As a result of this financing, the Group is able to advance funds to specific customers at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of these instruments and its judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise. In making this judgment management also considered that these instruments are a separate market sector.

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4. Significant accounting judgements and estimates (continued)

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized. The carrying value of deferred tax assets amounted to UZS 244,351 million and UZS 198,715 million as at 31 December 2018 and 2017, respectively.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	***2017***
Time deposits with credit institutions up to 90 days	2,952,082	6,028,623
Current accounts with other credit institutions	2,874,410	1,949,985
Cash on hand	552,702	677,571
Current accounts with the Central Banks	239,772	2,424,329
Cash and cash equivalents	6,618,966	11,080,508
Less – allowance for impairment	(4,812)	-
Cash and cash equivalents	**6,614,154**	**11,080,508**

All balances of cash equivalents are allocated to Stage 1. An analysis of changes in the ECL allowances during the year is, as follows:

ECL allowance as at 1 January 2018	**(4,402)**
Changes in ECL	(11)
Foreign exchange adjustments	(399)
At 31 December 2018	**(4,812)**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2018	***2017***
Time deposits for more than 90 days	979,717	945,681
Obligatory reserve with the Central Banks	915,603	1,061,113
Less – allowance for impairment	(3,320)	-
Amounts due from credit institutions	**1,892,000**	**2,006,794**

As at 31 December 2018 Group had balances with various banks, with individual exposure not exceeding 10% of the Group’s equity.

Credit institutions are required to maintain a non-interest earning cash deposit obligatory reserve with the Central Banks, the amount of which depends on the level of funds attracted by the credit institution. The Group’s ability to withdraw such deposit is significantly restricted by the statutory legislation. The Obligatory reserves with Central Banks are formed on the basis of the level of funds attracted from customers and reserves against assets impairment.

As at 31 December 2018, obligatory reserves with Central Banks comprise mandatory cash balances with the Central Banks of the Republic of Uzbekistan and the Russian Federation in the amounts of UZS 858,552 million and UZS 57,051 million, respectively (2017: UZS 1,000,526 million and UZS 60,587 million).

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2018 is as follows:

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6. Amounts due from credit institutions (continued)

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	2,006,794	-	-	**2,006,794**
New assets originated or purchased	739,043	-	-	**739,043**
Assets repaid	(857,092)	-	-	**(857,092)**
Foreign exchange adjustments	6,575	-	-	**6,575**
At 31 December 2018	**1,895,320**	**-**	**-**	**1,895,320**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2018	940	-	-	**940**
New assets originated or purchased	3,365	-	-	**3,365**
Assets repaid	(988)	-	-	**(988)**
Foreign exchange adjustments	3	-	-	**3**
At 31 December 2018	**3,320**	**-**	**-**	**3,320**

The movements in allowance for impairment of amounts due from credit institutions during the year ended 31 December 2018 were as follows:

ECL allowance as at 1 January 2018	**(940)**
Changes in ECL	(2,377)
Foreign exchange adjustments	(3)
At 31 December 2018	**(3,320)**

7. Loans to customers

The Group uses the following classification of loans:

Loans to corporate entities:

- State companies - loans issued to clients with joint or whole ownership by the Republic of Uzbekistan;
- Private companies - loans issued to clients other than government entities and private entrepreneurs;
- State budget or local authorities – loans issued to non-profit budget organizations;
- Net investments in finance lease – loans issued to corporate clients that meet definition of the finance lease;
- Non-banking financial institutions – loans issued to clients whose primary activity is to provide financing, including lease.

Loans to individuals:

- Mortgage loans;
- Consumer loans;
- Education loans;
- Agriculture loans;
- Car loans.

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Loans to customers comprise:

	2018	*2017*
Corporate lending		
State companies	24,488,985	20,194,522
Private companies	13,291,014	8,164,313
State budget or local authorities	5,681,138	5,211,223
Gross investment in finance lease	989,714	1,047,162
Non-banking financial institutions	78,947	32,131
Total corporate lending	**44,529,798**	**34,649,351**
Loans to individuals		
Mortgage loans	1,905,372	1,411,484
Consumer loans	541,527	94,077
Car loans	292,977	294
Agriculture loans	281,934	268,580
Education loans	42,070	38,461
Total loans to individuals	**3,063,880**	**1,812,896**
Gross loans to customers	**47,593,678**	**36,462,247**
Less: allowance for impairment	(1,568,196)	(1,940,684)
Loans to customers	**46,025,482**	**34,521,563**

Loans to customers were granted both in foreign currencies and UZS, while loans granted in USD make 67% (2017: 68%) of loan portfolio of the Group.

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state companies during the year ended 31 December 2018 is as follows:

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**19,347,617**	**221,067**	**625,838**	**20,194,522**
New assets originated or purchased	4,265,922	340	-	**4,266,262**
Assets repaid	(374,296)	(3,612)	(50,927)	**(428,835)**
Transfers to Stage 2	(14)	113,301	(113,287)	**-**
Transfers to Stage 3	(6,649)	-	6,649	**-**
Foreign exchange adjustments	439,007	9,106	8,923	**457,036**
At 31 December 2018	**23,671,587**	**340,202**	**477,196**	**24,488,985**

State companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**1,129,379**	**2,481**	**246,571**	**1,378,431**
New assets originated or purchased	123,027	1,755	81	**124,863**
Assets repaid	(7,556)	-	(4,152)	**(11,708)**
Transfers to Stage 2	-	11,670	(11,670)	**-**
Transfers to Stage 3	(695)	-	695	**-**
Impact on period end ECL of exposures transferred between stages during the period	-	(9,894)	4,311	**(5,583)**
Recoveries	(591,000)	(453)	(27,905)	**(619,358)**
Foreign exchange adjustments	25,400	380	1,751	**27,531**
At 31 December 2018	**678,555**	**5,939**	**209,682**	**894,176**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to private companies during the year ended 31 December 2018 is as follows:

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**7,616,945**	**384,452**	**162,916**	**8,164,313**
New assets originated or purchased	7,525,114	141,203	54,622	**7,720,939**
Assets repaid	(2,420,971)	(179,132)	(85,517)	**(2,685,620)**
Transfers to Stage 1	120,505	(55,201)	(65,304)	**-**
Transfers to Stage 2	(121,767)	122,029	(262)	**-**
Transfers to Stage 3	(173,163)	(42,467)	215,630	**-**
Foreign exchange adjustments	88,350	1,800	1,232	**91,382**
At 31 December 2018	**12,635,013**	**372,684**	**283,317**	**13,291,014**

Private companies	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**260,313**	**106,419**	**46,315**	**413,047**
New assets originated or purchased	132,180	29,172	47,967	**209,319**
Assets repaid	(44,074)	(1,969)	(16,152)	**(62,195)**
Transfers to Stage 1	30,582	(7,607)	(22,975)	**-**
Transfers to Stage 2	(2,920)	3,083	(163)	**-**
Transfers to Stage 3	(9,746)	(8,251)	17,997	**-**
Impact on period end ECL of exposures transfe	(28,785)	6,396	58,420	**36,031**
Recoveries	(99,829)	(83,312)	(2,805)	**(185,946)**
Foreign exchange adjustments	2,346	29	44	**2,419**
At 31 December 2018	**240,067**	**43,960**	**128,648**	**412,675**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to state budget or local authorities during the year ended 31 December 2018 is as follows:

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**5,211,223**	**-**	**-**	**5,211,223**
New assets originated or purchased	872,863	-	-	**872,863**
Assets repaid	(433,108)	-	-	**(433,108)**
Foreign exchange adjustments	30,160	-	-	**30,160**
At 31 December 2018	**5,681,138**	**-**	**-**	**5,681,138**

State budget or local authorities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**255,085**	**-**	**-**	**255,085**
New assets originated or purchased	33,450	-	-	**33,450**
Recoveries	(108,962)	-	-	**(108,962)**
Foreign exchange adjustments	1,656	-	-	**1,656**
At 31 December 2018	**181,229**	**-**	**-**	**181,229**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to gross investment in finance lease during the year ended 31 December 2018 is as follows:

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**1,047,162**	**-**	**-**	**1,047,162**
Assets repaid	(87,977)	-	-	**(87,977)**
Foreign exchange adjustments	30,529	-	-	**30,529**
At 31 December 2018	**989,714**	**-**	**-**	**989,714**

Gross investment in finance lease	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**69,233**	**-**	**-**	**69,233**
Recoveries	(43,011)	-	-	**(43,011)**
Foreign exchange adjustments	1,871	-	-	**1,871**
At 31 December 2018	**28,093**	**-**	**-**	**28,093**

An analysis of changes in the gross carrying value and corresponding ECL in relation to non banking financial institutions during the year ended 31 December 2018 is as follows:

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**32,131**	**-**	**-**	**32,131**
New assets originated or purchased	60,698	-	-	**60,698**
Assets repaid	(13,882)	-	-	**(13,882)**
At 31 December 2018	**78,947**	**-**	**-**	**78,947**

Non-banking financial institutions	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**681**	**-**	**-**	**681**
New assets originated or purchased	855	-	-	**855**
Assets repaid	(28)	-	-	**(28)**
Recoveries	(572)	-	-	**(572)**
At 31 December 2018	**936**	**-**	**-**	**936**

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans issued to individuals in during the year ended 31 December 2018 is as follows:

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2018	**1,801,439**	**4,949**	**6,508**	**1,812,896**
New assets originated or purchased	1,664,067	969	454	**1,665,490**
Assets repaid	(418,912)	(1,008)	(1,488)	**(421,408)**
Transfers to Stage 1	5,723	(2,568)	(3,155)	**-**
Transfers to Stage 2	(2,225)	2,225	-	**-**
Transfers to Stage 3	(6,274)	(1,332)	7,606	**-**
Unwinding of discount	6,903	-	-	**6,903**
At 31 December 2018	**3,050,721**	**3,234**	**9,925**	**3,063,880**

Loans to Individuals	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2018	**49,252**	**1,493**	**3,930**	**54,675**
New assets originated or purchased	36,328	366	476	**37,170**
Assets repaid	(2,338)	(80)	(492)	**(2,910)**
Transfers to Stage 1	2,729	(787)	(1,942)	**-**
Transfers to Stage 2	(88)	88	-	**-**
Transfers to Stage 3	(369)	(596)	965	**-**
Impact on period end ECL of exposures transfe	(2,706)	247	3,037	**578**
Unwinding of discount (recognised in interest re	217			**217**
Recoveries	(38,497)	(25)	(121)	**(38,643)**
At 31 December 2018	**44,528**	**706**	**5,853**	**51,087**

During 2018 and 2017, the Group has written off loans with UZS 0 million (2017: 565) and recognized loss from loans bearing interests lower than market interest in total amount of UZS 129,677 million (2017: 121,579). Loans written off were considered to be non-recoverable after all procedures (sale of collateral, collection and court cases) were completed.

A reconciliation of the allowance for impairment of loans to customers during the year ended 31 December 2017 is as follows:

At 1 January 2017	**578,173**
Charge for the year	1,219,770
Currency translation effect	264,885
Loss on initial recognition	(122,144)
At 31 December 2017	**1,940,684**
Individual impairment	582,478
Collective impairment	1,358,206
	1,940,684

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, third party guarantees, vehicles and cash deposits;
- For retail lending, mortgages over residential properties and vehicle.
- For letters of credit and guarantees cash deposits.

The Group also obtains guarantees from Government of the Republic of Uzbekistan for loans to the government related entities.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

In absence of collateral or other credit enhancements, ECL in respect of Stage 3 loans to customers as at 31 December 2018 would have been higher by:

	2018
Private companies	92,588
State companies	70,758
Loans to individuals	2,797
	166,143

During the years ended 31 December 2018 and 2017, the Group received financial and non-financial assets by taking possession of collateral it held as security and calling on guarantees and similar credit enhancements. As at 31 December 2018 and 2017 such assets amounting to UZS UZS 4,135 million and 2,178 million (see Note 14), respectively, are included in other assets. The management of the Group expects to dispose these assets within 12 months period through public auctions.

Concentration of loans to customers

As of 31 December 2018, the Group had a concentration of loans represented by UZS 27,996,453 million due from ten largest borrowers which represents 60% of gross loan portfolio (2017 – UZS 24,307,664 or 67%). An allowance of UZS 833,009 million (2017 – UZS 650,880 million) was recognized against these loans. The majority of these loans is guaranteed by the Government of the Republic of Uzbekistan and/or financed by the Fund for Reconstruction and Development of the Republic of Uzbekistan.

As at 31 December 2018 and 2017, a significant amount of loans is granted to companies operating in the Republic of Uzbekistan, which represents a significant geographical concentration in one region.

(Millions of Uzbek Soums)

7. Loans to customers (continued)

Loans are made principally within Uzbekistan and Russia in the following industry sectors:

	2018	*2017*
Manufacturing	17,040,287	12,896,559
Transport and communication	16,600,683	13,422,585
Government social structure	4,940,454	4,506,174
Individuals	3,063,880	1,812,896
Trade and catering	1,925,494	1,302,374
Agriculture	1,364,421	838,093
Construction	1,037,021	780,543
Housing and Utilities	272,348	224,173
Other	1,349,090	678,850
Total loans to customers	**47,593,678**	**36,462,247**
Less: allowance for impairment	**(1,568,196)**	**(1,940,684)**
Loans to customers	**46,025,482**	**34,521,563**

8. Assets held for sale

As at 31 December 2018 the Group has property held for sale that includes repossessed assets from impaired loans for UZS 20,755 million.

	2018	*2017*
Property held for sale	20,755	105,496
Total property held for sale	**20,755**	**105,496**

As at 31 December 2017 the Group had investments in subsidiaries, classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The management of the Group has the intention to sell these investments within one year time from the date of initial classification as disposal groups.

The major classes of assets and liabilities of entitled classified as held for sale as at 31 December 2018 and 31 December 2017 are as follows:

Assets		
Cash and cash equivalents	-	4
Property and equipment	-	84,570
Inventories	-	3,568
Other assets	-	2,220
Total assets of the subsidiary companies held for sale	-	**90,362**
Total assets held for sale	-	**195,858**
Trade and other payables	-	(18,024)
Liabilities directly associated with assets held for sale	-	**(18,024)**

(Millions of Uzbek Soums)

9. Investment securities

Investment securities comprise equity investments in:

	2018	*2017*
JSC Uzbek Korean Development bank	12,311	5,886
Uzbekinvest NEIIC	9,274	9,274
JSC Uzmetkombinat	9,234	9,234
JSC Microcreditbank	4,762	4,762
JSC Kafolat	4,092	4,092
Republican Stock Exchange „Tashkent“	2,838	2,838
JSC Qurilishmashleasing	1,500	1,500
JSC Uzmedleasing	440	440
JSC Qurilish-Leasing	394	394
JSC Republican Currency Exchange	177	177
Small business development guarantee fund	-	10,000
JV Indorama Kokand Textile LLC	-	7,287
Other	2,740	4,553
Total investment securities	**47,762**	**60,437**

10. Investments in associates

The following major associates are accounted for under the equity method:

Associates	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*	*Carrying value*
31-Dec-18					
Navro'z Bogí LLC	50%	Tashkent	Uzbekistan	Construction	85,000
O`zbegim otlari LLC	42%	Tashkent	Uzbekistan	Horse	52,000
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	45,068
Toy City LLC	28%	Tashkent	Uzbekistan	Manufacturing	1,112
Other associates, individually		Other	Other	Other	6,673
Total value of investments in associates					**189,853**

Associates	*Ownership/ voting, %*	*Principal place of business*	*Country of incorporation*	*Nature of activities*	*Carrying value*
31-Dec-17					
Uzbek Leasing International JSC	42%	Tashkent	Uzbekistan	Leasing	39,456
Paxtakor Gold Textile LLC	49%	Tashkent	Uzbekistan	Textiles	9,315
Boston Optimal Tekstil LLC	39%	Tashkent	Uzbekistan	Textiles	6,275
Arnasoy Gold Tex LLC	50%	Tashkent	Uzbekistan	Textiles	300
Toy City LLC	28%	Tashkent	Uzbekistan	Manufacturing	590
Total value of investments in associates					**55,936**

As at 31 December 2018 there were no significant restrictions on the ability of associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

(Millions of Uzbek Soums)

10. Investments in associates (continued)

During 2018 the Group has founded new companies “Navro'z Bogí” LLC with amount of 85,000 MUZS invested and “O`zbegim otlari” LLC with amount of 52,000 MUZS invested, which will operate in construction and horse breeding industries with the ownership of the Group equal or less than 50%. All these companies did not start their operating activity yet.

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
At cost					
31-Dec-16	**308,856**	**11,716**	**243,304**	**-**	**563,876**
Additions	3,436	67,376	52,664	-	**123,476**
Disposals and write-offs	(364)	(272)	(2,338)	-	**(2,974)**
Disposal of a subsidiary	(19,492)	-	(29,749)	-	**(49,241)**
Transfers	12,181	(13,431)	1,250	-	**-**
Reclassified as held for sale – assets of subsidiary	(30,286)	-	(2,514)	-	**(32,800)**
31-Dec-17	**274,331**	**65,389**	**262,617**	**-**	**602,337**
Additions	72,555	435,484	233,704	3,488	**745,231**
Disposals and write-offs	(29,634)	-	(10,648)	(192)	**(40,474)**
Transfers	-	-	-	-	**-**
Reclassified as held for sale – assets of subsidiary	-	-	-	-	**-**
31-Dec-18	**317,252**	**500,873**	**485,673**	**3,296**	**1,307,094**

Accumulated depreciation.

	Buildings and other real estate	*Construction in progress*	*Furniture and equipment*	*Other*	*Total*
31-Dec-16	**(179,478)**	**-**	**(163,119)**	**-**	**(342,597)**
Charge for the year	(14,090)	**-**	(18,647)	**-**	**(32,737)**
Disposals	283	**-**	1,988	**-**	**2,271**
Reclassified as held for sale	2,198	**-**	407	**-**	**2,605**
of subsidiary	774	**-**	1,260	**-**	**2,034**
Disposal of a subsidiary					
31-Dec-17	**(190,313)**	**-**	**(178,111)**	**-**	**(368,424)**
Charge for the year	(18,623)	**-**	(26,660)	(262)	**(45,545)**
Disposals	5,921	**-**	13,327	192	**19,440**
Reclassified as held for sale	-	**-**	-	-	**-**
– assets of subsidiary	-	**-**	-	-	**-**
31-Dec-18	**(203,015)**	**-**	**(191,444)**	**(70)**	**(394,529)**
Net book value					
31-Dec-17	**84,018**	**65,389**	**84,506**	**-**	**233,913**
31-Dec-18	**114,237**	**500,873**	**294,229**	**3,226**	**912,565**

(Millions of Uzbek Soums)

12. Taxation

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Uzbekistan and other countries where the Group operates, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases’ differences for certain assets.

The statutory income tax rate applicable to the majority of the Bank’s income is comprised corporate income tax 22% (21.8% for 2017, 20% (for 20% 2017) for Russian Federation.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2018	*2017*
Profit before tax from continuing operations	848,422	2,088,732
Loss before tax from discontinued operations	-	(18,904)
Profit/(loss) before tax	**848,422**	**2,069,828**
Theoretical income tax expense at the statutory rate	186,653	451,223
Non-deductible expenditures	13,685	13,985
Income tax privileges	(1,847)	(1,181)
Tax exempt income	-	-
Effect of tax rate, different from the rate of 22% / 20%	(39,396)	(17,482)
Tax effect of other permanent differences	(98,209)	(493,038)
Change in unrecognized deferred tax assets	-	(19,503)
Income tax expense	**60,886**	**(65,996)**
Current income tax	105,109	75,451
Change in defered tax income from continuing operations	(45,636)	(137,327)
Income tax from continuing operations	**59,473**	**(61,876)**
Change in deferred tax form discontinued operation	-	(4,121)
Income tax expense / (benefit)	**59,473**	**(65,997)**

	2018	*2017*
Beginning of the year	**198,715**	**57,267**
Change in deferred income tax balances recognized in consolidated profit or loss	45,636	141,448
End of the year	**244,351**	**198,715**

(Millions of Uzbek Soums)

12. Taxation (continued)

Tax effect of taxable temporary differences		***Origination and reversal of temporary differences***		***Origination and reversal of temporary differences***	
	2016	***In the statement of profit or loss***	***2017***	***In the statement of profit or loss***	***2018***
Allowance for loan impairment	73,202	120,570	193,772	(1,151)	192,621
Investment securities	-	15,866	15,866	(15,866)	-
Other provision and accruals	-	10,403	10,403	30,340	40,743
Property and equipment	-	8,053	8,053	34,070	42,123
Gross deferred tax asset	**73,202**	**154,892**	**228,094**	**47,393**	**275,487**
Unrecognised deferred tax asset	-	-	-	-	**-**
Deferred tax asset	**73,202**	**154,892**	**228,094**	**47,393**	**275,487**
Tax effect of taxable temporary differences					
Investment securities	2,852	(163)	2,689	706	3,395
Property and equipment	4,210	(4,210)	-		-
Other provisions and accruals	8,873	17,817	26,690	1,051	27,741
Deferred tax liability	**15,935**	**13,444**	**29,379**	**1,757**	**31,136**
Net deferred tax asset	**57,267**	**141,448**	**198,715**	**45,636**	**244,351**

13. Credit loss expense and other impairment and provision

The tables below shows the ECL charges on financial instruments recorded and the movements in allowance on credit related commitments and other impairment and provisions in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	***Stage 1***	***Stage 2***	***Stage 3***	***Charge***	***Write offs***	***Total***
Cash and cash equivalents	5	412	**-**	**-**	**-**	**-**	**412**
Amounts due from credit institutions	6	2,380	-	-	-	-	**2,380**
Loans to customers at amortised cost	:	(590,536)	(59,788)	47,368	-	-	**(602,956)**
Total credit loss (reversal) /expense		**(587,744)**	**(59,788)**	**47,368**	**-**	**-**	**(600,164)**

	Note	***Other financial assets***	***Financial guarantees***	***Loans commit-ments***	***Letters of Credit***	***Other non financial assets***	***Total***
Stage 1	14	13,275	31,981	111	(1,875)	-	**43,492**
Stage 2	29	-	-	**-**	-	-	**-**
Stage 3	29	-	-	**-**	-	-	**-**
Charge / (Reversal)		-	-	**-**	-	22,226	**22,226**
Write-offs		-	-	-	-	23,533	**23,533**
Total allowance / (reversal) on credit related commitments and other impairment and provisions		**13,275**	**31,981**	**111**	**(1,875)**	**45,759**	**89,251**

(Millions of Uzbek Soums)

14. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets:		
Trade receivables	30,490	15,100
Receivables as a result of court proceedings	3,263	2,843
Other financial assets	4,542	1,453
	38,295	**19,396**
Less – allowance for impairment of other financial assets	(16,080)	(2,805)
Total other financial assets	**22,215**	**16,591**

	2018	*2017*
Other non-financial assets:		
Prepayments for materials and services	119,935	75,238
Bazars	49,812	-
Inventory	34,805	25,419
Reprocessed assets	4,135	2,178
Other non-financial assets	32,935	28,633
	241,622	**131,468**
Less – allowance for impairment of other non-financial assets	(22,253)	(27)
Total other non-financial assets	**219,369**	**131,441**
Other assets	**241,584**	**148,032**

Other liabilities comprise:

	2018	*2017*
Other financial liabilities		
Accounts payable	172,164	24,769
Payable to employees	17,193	3,904
Total other financial liabilities	**189,357**	**28,673**
Other non-financial liabilities:		
Taxes payable, other than income tax	14,558	10,531
Unearned revenue	10,059	8,833
Contingent liability for litigations	5,462	-
Other	31,875	22,985
Total other non-financial liabilities	**61,954**	**42,349**
Allowance for credit related liabilities and financial guarantees	126,507	-
Total other liabilities	**377,818**	**71,022**

(Millions of Uzbek Soums)

15. Amounts due to the CBU and the Government

Amounts due to the CBU consist of the following:

	2018	*2017*
Correspondent account of the CBU	494,843	536,984
Funds received from CBU for lending purposes	2,845	5,080
Amounts due to the Ministry of Finance of the Republic of Uzbekistan	-	28,950
Amounts due to the CBU and the Government	**497,688**	**571,014**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2018	*2017*
Correspondent accounts with other banks	677,277	1,389,147
Time deposits of bank and other financial institutions	273,602	520,410
Amounts due to credit institutions	**950,879**	**1,909,557**

17. Amounts due to customers

The amounts due to customers include the following:

	2018	*2017*
Current accounts	8,647,083	8,227,078
Time deposits	3,224,811	3,883,048
Amounts due to customers	**11,871,894**	**12,110,126**
Held as security against letters of credit	3,143,046	3,094,522

As at 31 December 2018 and 2017, customer accounts in the amount of UZS 4,782,719 million (UZS 2,382,331 million hold as security against letters of credit) and UZS 5,525,052 million (UZS 1,704,929 million hold as security against letters of credit) (40% and 46% of total customer accounts), respectively, were due to ten customers, which represents a significant concentration.

Amounts due to customers include accounts with the following types of customers:

	2018	*2017*
State and budgetary organizations	4,644,587	3,102,155
Private enterprises	4,205,945	5,771,367
Individuals	2,755,557	2,589,982
Other	265,805	646,622
Amounts due to customers	**11,871,894**	**12,110,126**

(Millions of Uzbek Soums)

17. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	2018	*2017*
Individuals	2,755,557	2,589,982
Transport and communication	2,334,084	2,266,855
Manufacturing	2,242,636	2,375,304
Construction	1,153,091	326,978
Trading and catering	927,574	2,046,075
Government social structure	880,888	1,406,206
Financial sector	398,013	310,242
Defence activities	276,819	-
Agriculture	64,474	82,552
Housing and utilities	-	2,578
Embassies and representative offices	-	53,172
Other	838,758	650,182
Amounts due to customers	**11,871,894**	**12,110,126**

18. Debt securities issued

Debt securities issued consisted of the following:

	2018	*2017*
Certificates of deposit	110,158	140,862
Bonds	35,757	35,644
Debt securities issued	**145,915**	**176,506**

As at 31 December 2018, bonds represent debt issued to Joint Stock Commercial Bank with Foreign Capital “Hamkorbank” in the amount of UZS 35,757 million (2017: UZS 35,644 million) bearing 10.5% interest per annum with maturity on 7 October 2020.

As per 31 December 2018, certificated of deposits include certificated issued to the Fund Deposit guarantee in the amount of UZS 110,158 million with 6% interest rate.

(Millions of Uzbek Soums)

19. Other borrowed funds

Other borrowed funds consisted of the following:

	2018	2017
Fund for Reconstruction and Development of The Republic of Uzbekistan	19,330,531	13,203,501
Eximbank of China	7,206,441	7,279,071
China Development Bank Corporation	2,886,414	2,822,231
Ministry of Finance of the Republic of Uzbekistan	2,245,318	1,175,099
Deutsche Bank AG	1,587,430	2,095,270
Islamic Development Bank	1,015,030	1,047,571
International Bank for Reconstruction and Development	891,857	404,419
Sumitomo Mitsui Banking Corporation	474,150	455,070
European Bank for Reconstruction and Development	472,178	-
Central Bank of Uzbekistan	327,972	260,000
Gazprombank	309,034	64,343
Landesbank Baden-Wuerttemberg	291,883	-
Eximbank of Korea	171,941	96,731
"Yoshlar - Kelajagimiz jam'garmasi" (State Program "Youth is our future")	117,618	-
Societe Generale	47,578	144,921
Banco Bilbao Vizcaya	32,955	35,938
Landesbank Berlin AG	30,720	57,510
Other	-	240,685
Other borrowed funds	**37,439,050**	**29,382,360**

During 2018 the Group attracted funds from Fund for Reconstruction and Development of the Republic of Uzbekistan for total amount of 3,653,727 mUZS from new contracts and 2,383,848 mUZS from existing credit lines to finance long term investment project under State Investment Program. Loans received for interest rates from 0 % to 4.9 % with maturity between 7 – 15 years. The Group recognized gain from initial recognition of interest free borrowing as contribution made by Government for total amount of 126,096 mUZS.

In 2018 the Group In cooperation with Ministry of Finance of the Republic of Uzbekistan signed new loan agreement with Asian Development Bank and attracted funds for total amount of 284,521 mUZS.

During 2018 the Group attracted funds from Ministry of Finance of the Republic of Uzbekistan for total amount of 442,556 mUZS from new contracts and 660,655 mUZS from existing credit lines. with interest rate from 1 % to 3 % for the purpose of implementing project of construction of new accommodation in rural areas according to President Decree (PD) № 2282, and textile industry development projects.

In 2018 the Group attracted funds from European Bank of Reconstruction and Development for the total amount of 458,675 mUZS from contract signed in 2017.

(Millions of Uzbek Soums)

20. Equity

Share capital

As at December 2018 and 2017, authorized and paid share capital of the Group comprised UZS 4,320,970 million and UZS 1,267,530 million UZS, respectively.

During 2018, the share capital of the Group increased in the amount of UZS 3,053,440 million UZS The statute of the bank № 22-13 was registered on 26 February 2018.

Contribution from shareholders

In 2018 the Group received interest free loan from Government for total amount of 548,677 mUZS. Gain from initial recognition of this borrowing has been recognized as additional equity contribution made by Government for total amount of 126,096 mUZS.

Other reserves

As at 31 December 2018 and 2017, exchange differences from the translation of the net investment in foreign operations were equal to UZS 20,532 million and UZS 88,541 million, respectively.

21. Net interest income

Net interest income comprises:

	2018	*2017*
Financial assets measured at amortized cost		
Loans to customers	2,466,920	1,286,390
Cash equivalents	112,623	80,344
Amounts due from credit institutions	32,193	14,551
Finance lease receivable	8,832	8,684
Interest revenue calculated using effective interest rate	**2,620,568**	**1,389,969**
Interest expense comprise:		
Interest on financial liabilities recorded at amortized cost	(1,358,970)	(712,702)
Total interest expense	**(1,358,970)**	**(712,702)**
Interest expense on liabilities recorded at amortized cost comprise:		
Other borrowed funds	(932,769)	(478,034)
Customer accounts	(389,072)	(201,745)
Amounts due to credit institutions	(24,734)	(24,278)
Debt securities issued	(12,395)	(8,645)
Total interest expense on financial liabilities recorded at amortized cost	**(1,358,970)**	**(712,702)**
Net interest income	**1,261,598**	**677,267**

22. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	2018	*2017*
Dealing transactions, net	69,664	441,226
Net unrealized (loss) / gain on foreign exchange operations	(491,024)	2,494,017
Total net (loss) / gain on foreign exchange operations	**(421,360)**	**2,935,243**

(Millions of Uzbek Soums)

23. Net fee and commission income

Fee and commission income comprises:

	2018	*2017*
Settlements operations	168,837	142,266
Letter of credit and guarantee issuance	80,509	35,049
Foreign currency exchange operation	57,401	97,093
Foreign settlement operations	26,415	16,413
Operations with plastic cards	25,464	23,235
Cash operations	20,087	8,735
Other	12,418	15,508
Fee and commission income	**391,131**	**338,299**

Fee and commission expenses comprises:

	2018	*2017*
Cash collection services	36,521	31,494
Operations with plastic cards	10,644	5,851
Settlement expenses	12,934	6,371
Commission expense for conducting operations on guarantees	7,029	3,018
Conversion expenses	6,337	11,738
Other	1,463	590
Fee and commission expense	**74,928**	**59,062**
Net fee and commission income	**316,203**	**279,237**

24. Other income

	2018	*2017*
Gain from sale of investments	23,489	88,948
Rental Income	5,427	5,316
Gain from a disposal of fixed assets	9,383	3,459
Fines and penalties	1,345	1,130
Other	4,147	4,069
Total other income	**43,791**	**102,922**

(Millions of Uzbek Soums)

25. Personnel and operating expenses

	2018	2017
Salaries and bonuses	279,494	199,098
Social security costs	65,459	48,883
Personnel expenses	**344,953**	**247,981**
Operating taxes	106,985	75,737
Membership fee	53,010	46,512
Depreciation and amortization	45,545	26,625
Charity and sponsorship	37,809	13,688
Security	33,336	29,736
Maintenance	18,790	28,142
Office supplies	13,710	11,500
Occupancy and rent	9,171	9,066
Legal and consultancy	7,492	37,075
Communications	6,034	4,409
Transportation	5,826	443
Business travel and related expenses	2,883	2,013
Penalties incurred	2,572	769
Loss on disposal of property and equipment	-	180
Other	35,657	28,821
Other operating expenses	**378,820**	**314,716**
Total operating expenses	**723,773**	**562,697**

26. Other operating income and expenses of subsidiaries

Other operating income comprises revenue of subsidiaries from sale of goods and rendering services:

	2018	2017
Revenue	78,046	32,798
Cost of Sales	(43,781)	(11,520)
Gross Profit	**34,265**	**21,278**
Selling expenses	(5,244)	(945)
General and administrative expenses	(17,270)	(5,621)
Other income	3,702	1,041
Other expenses	(22,279)	(4,421)
Operating income	**(6,826)**	**11,332**
Finance income	3,808	-
Foreign exchange (loss) / gain, net	(22,859)	5,265
Finance costs	(2,774)	(2,185)
Profit before tax	**(28,651)**	**14,412**
Income tax	(1,766)	(1,650)
Net (Loss) / Income	**(30,417)**	**12,762**

(Millions of Uzbek Soums)

27. Subsidiaries

The consolidated financial statements include the following major subsidiaries:

Subsidiary	*Ownership / voting, %*	*Principal place of business*	*Country of incorporation*	*Date of incorporation*	*Nature of activities*
2018					
Asia Invest Bank JSC		Moscow	Russia	1996	Banking
NBU Invest Group LLC		Tashkent	Uzbekistan	2008	Asset management
VIP Service NBU		Tashkent	Uzbekistan	1999	Office maintenance
VIP Service NBU Guzari		Tashkent	Uzbekistan	1999	Hospitality
Tashkent Palace New LLC		Tashkent	Uzbekistan	2010	Hotel business
NBU Bunyodkor Invest LLC		Tashkent	Uzbekistan	2017	Construction
NBU Bukhara Invest		Bukhara	Uzbekistan	2017	Asset management
NBU Samarkand Invest LLC		Samarkand	Uzbekistan	2017	Asset management
East Brick LLC		Tashkent	Uzbekistan	2017	Manufacturing
Shomanay Eco Teks		Tashkent	Uzbekistan	2017	Textile
Zarbdor Textile LLC		Jizzakh	Uzbekistan	2017	Textile
O’yinchoqlar Fabrikasi LLC		Tashkent	Uzbekistan	2017	Manufacturing
Funny Kids World LLC		Tashkent	Uzbekistan	2017	Manufacturing
National Products LLC		Tashkent	Uzbekistan	2017	Manufacturing
Toshkent Sifat Sut LLC		Tashkent	Uzbekistan	2017	Food
Zomin Textile		Jizzakh	Uzbekistan	2017	Textile
Jayhun Gold Tex LLC		Karakalpakstan	Uzbekistan	2017	Textile
Sherobod Textile LLC		Sherobod	Uzbekistan	2017	Textile
Paxtakor Gold Textile LLC		Tashkent	Uzbekistan	2016	Textile

Subsidiary	*Ownership / voting, %*	*Principal place of business*	*Country of incorporation*	*Date of incorporation*	*Nature of activities*
2017					
Uzinvestproject LLC		Tashkent	Uzbekistan	1995	Consulting
Asia Invest Bank JSC		Moscow	Russia	1996	Banking
NBU Invest Group LLC		Tashkent	Uzbekistan	2008	Asset management
NBU Investment LLC		Tashkent	Uzbekistan	2008	Asset management
VIP Services NBU		Tashkent	Uzbekistan	1999	Office maintenance
Rohat NBU WOS		Issyk-Kul	Kyrgyzstan	1999	Recreation
Vodiy Ipagi LLC		Namangan	Uzbekistan	2008	Textile
Tashkent Palace New LLC		Tashkent	Uzbekistan	2010	Hotel business
Xorazm Palace LLC		Urgench	Uzbekistan	2010	Hotel business
Qorasuv Savdo LLC		Tashkent	Uzbekistan	2008	Trade
NBU Bunyodkor Invest LLC		Tashkent	Uzbekistan	2017	Construction
NBU Bukhara Invest		Bukhara	Uzbekistan	2017	Asset management
NBU Samarkand Invest LLC		Samarkand	Uzbekistan	2017	Asset management
East Brick LLC		Tashkent	Uzbekistan	2017	Manufacturing
Shomanay Eco Teks		Tashkent	Uzbekistan	2017	Textile
Zarbdor Textile LLC		Jizzakh	Uzbekistan	2017	Textile
O’yinchoqlar Fabrikasi LLC		Tashkent	Uzbekistan	2017	Manufacturing
Funny Kids World LLC		Tashkent	Uzbekistan	2017	Manufacturing
National Products LLC		Tashkent	Uzbekistan	2017	Manufacturing
Toshkent Sifat Sut LLC		Tashkent	Uzbekistan	2017	Food
Zomin Textile		Jizzakh	Uzbekistan	2017	Textile
Kinder Fruits LLC		Tashkent district	Uzbekistan	2009	Consumer products
Jayhun Gold Tex LLC		Karakalpakstan	Uzbekistan	2017	Textile
Toshkent Qogozi LLC		Tashkent	Uzbekistan	2009	Paper production
Sherobod Textile LLC		Sherobod	Uzbekistan	2017	Textile

(Millions of Uzbek Soums)

28. Changes in liabilities arising from financial activities

	Bonds issued	*Other borrowed funds*	*Total liabilities from financing activities*
Carrying amount at 31-Dec-16	**96,847**	**10,169,015**	**10,265,862**
Proceeds from issuance	110,000	7,212,716	**7,322,716**
Repayment	(30,401)	(694,898)	**(725,299)**
Foreign currency translation	-	12,860,366	**12,860,366**
Other	60	(164,839)	**(164,779)**
Carrying amount at 31-Dec-17	**176,506**	**29,382,360**	**29,558,866**
Proceeds from issuance	-	8,419,596	**8,419,596**
Repayment	(29,243)	(846,805)	**(876,048)**
Foreign currency translation	-	494,992	**494,992**
Other	(1,348)	(11,093)	**(12,441)**
Carrying amount at 31-Dec-18	**145,915**	**37,439,050**	**37,584,965**

The “Other” line includes the effect of accrued but not yet paid interest on bonds issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

29. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2018 and 2017, the nominal or contract amounts were:

	2018	*2017*
Credit related commitments		
Undrawn loan commitments	4,213,387	1,449,163
Letters of credit	6,079,041	5,476,092
Guarantees	2,350,499	2,076,391
Commitments and contingencies (before deducting collateral)	**12,642,926**	**9,001,646**
Cash coverage	(3,143,046)	(3,094,522)
Commitments and contingencies	**9,499,881**	**5,907,124**

(Millions of Uzbek Soums)

29. Commitments and contingencies (continued)

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**33**	**-**	**-**	**33**
New exposures	142	**-**	**-**	**142**
Amounts paid	**(31)**	**-**	**-**	**(31)**
At 31 December 2018	**144**	**-**	**-**	**144**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**18,445**	-	-	**18,445**
New exposures	5,625	-	-	**5,625**
Amounts paid	(7,500)	-	-	**(7,500)**
At 31 December 2018	**16,570**	**-**	**-**	**16,570**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2018	**77,812**	**-**	**-**	**77,812**
New exposures	31,981	-	-	**31,981**
At 31 December 2018	**109,793**	**-**	**-**	**109,793**

Commitments on loans and unused credit lines include 4,200,961 UZS million or 99% of commitments that will be satisfied from committed borrowings of the Fund of Reconstruction and Development of the Republic of Uzbekistan and foreign banks (2017: UZS 1,447,655 million or 99%).

Legal

From time to time and in the normal course of business, claims against the Group can be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Commercial legislation of the Republic of Uzbekistan and countries where the Group operates, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Operating environment

The banking sector in the Republic of Uzbekistan is impacted by legal, financial and regulatory reforms. Large state-owned banks of the Republic of Uzbekistan act as representatives of the state in economic development. Government allocates funds from the state budget, which through the banks, go to various government agencies and other public and private companies.

The Uzbek economy has been impacted by government's currency reforms, which resulted in significant devaluation of Uzbek Soum. Prospects for future economic stability in the Republic of Uzbekistan largely depend upon the effectiveness of economic measures undertaken by the Government, as well as the development of legal and regulatory frameworks that are beyond the control of the Bank. The Bank's financial condition and the results of its activities will be further impacted by political and economic reforms in Uzbekistan, including the application of existing and future legislation and tax regulations that have a significant impact on the financial markets of the Republic of Uzbekistan and the economy as a whole. Management is unable to predict all changes that could affect the banking sector as a whole and on the financial position of the Bank in particular.

30. Risk management

Introduction

Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Management of risk is fundamental to the Group’s banking business and is an essential element of the Group’s operations. The main risks inherent to the Group’s operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the following risks:

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Impairment assessment

From 1 January 2018, the Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

30. Risk management (continued)

Credit risk (continued)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Group records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Group;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower’s turnover or the loss of a major customer;
- A covenant breach not waived by the Group;
- The debtor (or any legal entity within the debtor’s group) filing for bankruptcy;
- The debtor requesting prolongation or restructing payment schedule

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client’s ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group’s models.

(Millions of Uzbek Soums)

30. Risk management (continued)

Credit risk (continued)

Loss given default

For corporate lending assets, LGD values are assessed at least quarterly by account managers and reviewed and approved by the Group’s credit risk department.

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in “Definition of default” section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, for example internal grade, overdue bucket, product type, loan-to-value ratios, or borrower’s industry

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Inflation rates;
- Unemployment rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group’s credit rating system.

30. Risk management (continued)

Credit risk (continued)

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower’s rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower’s scoring assessment has been developed in the Group to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower’s parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated statement of financial position. As such, more detailed information is not being presented.

(Millions of Uzbek Soums)

30. Risk management (continued)

Credit risk (continued)

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor’s and Moody’s. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

	AA	A	BBB	BB	B	SD	Not Rated	Central Banks	Cash on Hands	2018
Cash and cash equivalents	2,371,666	2,873,646	153,718	60,777	88,008		10,373	487,517	568,449	**6,614,154**
Amounts due from credit institutions	30,413	337,752	36,580	201,453	370,185	-	14	915,603		**1,892,000**
Loans to customers	-	-	-	-	-	-	46,025,482	-	-	**46,025,482**
Investment securities	-	-	-	-	-	-	47,762	-	-	**47,762**
Other financial assets	-	-	-	-	-	-	22,215	-	-	**22,215**

	AA	A	BBB	BB	B	SD	Not rated	Central Banks	Cash on Hands	2017
Cash and cash equivalents	601,244	5,453,600	1,736,124	76,485	102,914	-	13,651	2,424,329	672,161	**11,080,508**
Amounts due from credit institutions	-	385,703	-	-	199,677	-	27,855	1,393,559	-	**2,006,794**
Loans to customers	-	-	-	-	-	-	34,521,563	-	-	**34,521,563**
Investment securities	-	-	-	-	1,813	-	58,624	-	-	**60,437**
Other financial assets	-	-	-	-	-	-	16,591	-	-	**16,591**

(Millions of Uzbek Soums)

30. Risk management (continued)

Geographical concentration

The geographical concentration of Group's financial assets and liabilities is set out below:

	2018			
	Republic of Uzbekistan	*OECD*	*CIS and other foreign countries*	*Total*
Financial assets				
Cash and cash equivalents	801,529	2,584,194	3,228,431	**6,614,154**
Amounts due from credit institutions	1,334,136	368,165	189,699	**1,892,000**
Loans to customers	45,836,144	-	189,338	**46,025,482**
Investment securities	47,262	-	500	**47,762**
Other financial assets	22,215	-	-	**22,215**
Total financial assets	**48,041,286**	**2,952,359**	**3,607,968**	**54,601,613**
Liabilities				
Amounts due to the CBU	497,688	-	-	**497,688**
Amounts due to credit institutions	312,627	-	638,252	**950,879**
Amounts due to customers	11,871,894	-	-	**11,871,894**
Debt securities issued	145,915	-	-	**145,915**
Other borrowed funds	21,059,936	4,000,692	12,378,422	**37,439,050**
Other financial liabilities	189,357	-	-	**189,357**
Total financial liabilities	**34,077,417**	**4,000,692**	**13,016,674**	**51,094,783**
Net assets/(liabilities)	**13,963,869**	**(1,048,333)**	**(9,408,706)**	

	2017			
	Republic of Uzbekistan	*OECD*	*CIS and other foreign countries*	*Total*
Financial assets				
Cash and cash equivalents	3,028,311	5,901,887	2,150,310	**11,080,508**
Amounts due from credit institutions	328,864	1,590,449	87,481	**2,006,794**
Loans to customers	34,322,317	-	199,246	**34,521,563**
Investment securities	58,624	-	1,813	**60,437**
Other financial assets	16,591	-	-	**16,591**
Total financial assets	**37,754,707**	**7,492,336**	**2,438,850**	**47,685,893**
Liabilities				
Amounts due to the CBU	571,014	-	-	**571,014**
Amounts due to credit institutions	1,590,817	-	318,740	**1,909,557**
Amounts due to customers	12,110,126	-	-	**12,110,126**
Debt securities issued	176,506	-	-	**176,506**
Other borrowed funds	14,620,050	3,291,165	11,471,145	**29,382,360**
Other financial liabilities	11,847	-	16,826	**28,673**
Total financial liabilities	**29,080,360**	**3,291,165**	**11,806,711**	**44,178,236**
Net assets/(liabilities)	**8,674,347**	**4,201,171**	**(9,367,861)**	

(Millions of Uzbek Soums)

30. Risk management (continued)

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposits withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department controls these types of risks by means of maturity analysis, determining the Group’s strategy for the next financial periods. Current liability is managed by the Treasury Department, which deals in the money markets for current liquidity and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on customers’ and banking operations, which is part of assets/liabilities management process. The Board of Management of the Group sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity position is assessed and managed by the Group, based on certain liquidity ratio established by the CBU. According CBU regulations, current liquidity ratio must be for more than 30%. As at 31 December, these ratios were as follows:

	2018, %	*2017, %*
“Current Liquidity Ratio” (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	55.26%	88.33%

The tables below summarize the maturity profile of the Group’s financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	497,688	-	-	-	**497,688**
Amounts due to credit institutions	780,656	112,064	58,159	-	**950,879**
Amounts due to customers (time deposits)	1,066,938	1,709,162	510,186	408	**3,286,694**
Amounts due to customers (current accounts) includes cash balances collaterised against letter of credits	5,737,560	1,909,842	937,798	-	**8,585,200**
Debt securities issued	-	-	145,915	-	**145,915**
Other borrowed funds	2,864,988	3,456,669	18,018,029	13,099,364	**37,439,050**
Other liabilities	189,357	-	-	-	**189,357**
Total undiscounted financial liabilities	**11,137,187**	**7,187,737**	**19,670,087**	**13,099,772**	**51,094,783**

(Millions of Uzbek Soums)

30. Risk management (continued)

Liquidity risk (continued)

As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to CBU and Government	536,984	32,052	1,978	-	**571,014**
Amounts due to credit institutions	1,754,483	25,812	64,262	65,000	**1,909,557**
Amounts due to customers (time deposits)	1,013,193	2,771,017	82,293	16,545	**3,883,048**
Amounts due to customers (current accounts)	8,227,078	-	-	-	**8,227,078**
Debt securities issued	666	30,397	145,443	-	**176,506**
Other borrowed funds	744,176	1,520,458	11,696,013	15,421,713	**29,382,360**
Other liabilities	28,673	-	-	-	**28,673**
Total undiscounted financial liabilities	**12,305,253**	**4,379,736**	**11,989,989**	**15,503,258**	**44,178,236**

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2018	2,707,185	2,581,862	1,757,634	5,596,245	**12,642,926**
2017	1,568,345	3,096,702	1,478,723	2,857,876	**9,001,646**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments. The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee, which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The primary objective of the Group is to support strategic sectors of the economy of the Republic of Uzbekistan and act as a financial agent between the state and the state owned entities to provide financial support to statewide programs of industrial modernization and infrastructure development. The Group finances these programs primarily by channelling the funding received from the Fund for Reconstruction and Development of the Republic of Uzbekistan (hereinafter "FRD ") and deposits of highly liquid State and budgetary organizations. As at 31 December 2018, total funds received from FRD and deposits of State and budgetary organizations amounted to UZS 19,330,551 million and UZS 2,690,908 million, respectively (31 December 2017: UZS 13,203,501 million and UZS 1,435,099 million). In addition, the expectation of the Management of the Group, is that 99% of commitments on loans and unused credit lines in the amount of UZS 4,213,387 million outstanding as at 31 December 2018, which are contributing to the negative liquidity gap, will be financed from funds of FRD when the commitments are called.

Group's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. There is a significant concentration of deposits 40% of deposit are placed by ten largest corporate clients.

Group has received significant funds from Eximbank of China UZS 7,206,441 million, China Development Bank UZS 2,886,414 million Deutsche Bank UZS 1,587,430 million. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realize its liquid assets to enable repayment.

(Millions of Uzbek Soums)

30. Risk management (continued)

Liquidity risk (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Market risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit sprea

ds, and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

The Group is exposed to interest rate risks as it borrows funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The Treasury Department also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Assets/ Liabilities	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
Financial assets	+100	516,579	111,915
Financial liabilities	+100	(404,663)	

Assets/ Liabilities	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*	*Sensitivity of equity 2018*
Financial assets	-100	(516,579)	(111,915)
Financial liabilities	-100	404,663	

Assets/ Liabilities	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
Financial assets	+100	36,462	7,079
Financial liabilities	+100	(29,382)	

(Millions of Uzbek Soums)

30. Risk management (continued)

Market risk (continued)

Assets/ Liabilities	*Decrease in basis points* *2017*	*Sensitivity of net interest income* *2017*	*Sensitivity of equity* *2017*
Financial assets	-100	(36,462)	(7,079)
Financial liabilities	-100	29,382	

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department controls currency risk by managing the open currency position on the estimated basis of UZS devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBU.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

Financial assets	*UZS*	*USD*	*EURO*	*Other Currency*	*2018*
Cash and cash equivalents	344,091	4,803,220	1,084,606	382,237	**6,614,154**
Amounts due from credit institutions	1,136,220	626,799	36,525	92,456	**1,892,000**
Loans to customers	9,830,052	31,186,866	4,406,874	601,690	**46,025,482**
Investment securities	41,376	6,386	-	-	**47,762**
Other financial assets	22,215	-	-	-	**22,215**
Total financial assets	**11,373,954**	**36,623,271**	**5,528,005**	**1,076,383**	**54,601,613**
					-
Amounts due to the CBU	31	104,118	392,740	799	**497,688**
Amounts due to credit institutions	274,544	550,789	37,634	87,912	**950,879**
Amounts due to customers	4,205,920	6,176,272	1,160,531	329,171	**11,871,894**
Debt securities issued	145,915	-	-	-	**145,915**
Other borrowed funds	2,267,381	30,506,830	4,022,337	642,502	**37,439,050**
Other financial liabilities	187,725	1,626	6	-	**189,357**
Total financial liabilities	**7,081,516**	**37,339,635**	**5,613,248**	**1,060,384**	**51,094,783**
OPEN BALANCE SHEET POSITION	**4,292,438**	**(716,364)**	**(85,243)**	**15,999**	

(Millions of Uzbek Soums)

30. Risk management (continued)

Currency risk (continued)

Financial assets	***UZS***	***USD***	***EUR***	***Other Currency***	***2017***
Cash and cash equivalents	2,397,807	7,219,550	839,444	619,305	**11,076,106**
Amounts due from credit institutions	126,538	861,783	736,344	281,192	**2,005,856**
Loans to customers	5,970,908	23,721,122	4,050,095	779,438	**34,521,563**
Investment securities:	47,264	13,173	-	-	**60,437**
Other financial assets	16,591	-	-	-	**16,591**
Total financial assets	**8,559,108**	**31,815,628**	**5,625,883**	**1,679,935**	**47,680,553**
Amounts due to the CBU and Government	33,971	344,190	181,218	11,635	**571,014**
Amounts due to credit institutions	135,963	1,307,487	209,197	256,910	**1,909,557**
Amounts due to customers	5,119,004	5,324,756	965,225	701,141	**12,110,126**
Debt securities issued	176,506	-	-	-	**176,506**
Other borrowed funds	1,448,132	23,231,648	4,050,125	652,455	**29,382,360**
Other financial liabilities	5,140	11,881	318	11,334	**28,673**
Total financial liabilities	**6,918,716**	**30,219,962**	**5,406,083**	**1,633,475**	**44,178,236**
OPEN BALANCE SHEET POSITION	**1,640,392**	**1,595,666**	**219,800**	**46,460**	

Currency risk sensitivity

The following table details the Group's sensitivity to a 20% increase and decrease in the UZS against US Dollars and Euro, respectively. 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in US Dollars and Euro, respectively. The sensitivity analysis includes external loans as well as loans to foreign operations with the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit where the UZS strengthens 20% against US Dollars and Euro, respectively. For a 20% weakening of the UZS against US Dollars and Euro, respectively, there would be a comparable impact on the profit and the balances below would be negative.

Currency	***Change in currency rate in % 2018***	***Effect on profit before tax 2018***	***Change in currency rate in % 2017***	***Effect on profit before tax 2017***
USD	20%	(199,393)	20%	319,133
EUR	20%	7,611	20%	7,118
USD	-20%	199,393	-20%	(319,133)
EUR	-20%	(7,611)	-20%	(7,118)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

30. Risk management (continued)

Limitations of sensitivity analysis (continued)

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group’s view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

31. Fair value measurements

Fair value measurement procedures

The Group’s investment committee determines the policies and procedures for both recurring fair value measurement, such as available-for-sale securities.

External values are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external values is decided upon annually by the investment committee after discussion with and approval by the Bank’s audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Values are normally rotated every three years. The investment committee decides, after discussions with the Group’s external values, which valuation techniques and inputs to use for each case.

At each reporting date, the investment committee analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group’s accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The investment committee, in conjunction with the Group’s external values, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the investment committee and the Group’s external values present the valuation results to the audit committee and the Group’s independent auditors. This includes a discussion of the major assumptions used in the valuations.

(Millions of Uzbek Soums)

31. Fair value measurement (continued)

Fair value hierarchy

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

		Fair value measurement using			
At 31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities available-for-sale	31.12.2018	-	-	47,762	**47,762**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2018	6,614,154	-	-	**6,614,154**
Amounts due from credit institutions	31.12.2018	1,892,000	-	-	**1,892,000**
Loans to customers	31.12.2018	-	-	46,025,482	**46,025,482**

		Fair value measurement using			
At 31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to the CB	31.12.2018			497,688	**497,688**
Amounts due to credit institutions	31.12.2018			950,879	**950,879**
Amounts due to customers	31.12.2018			11,871,894	**11,871,894**
Debt securities issued	31.12.2018			145,121	**145,121**
Other borrowed funds	31.12.2018			37,439,050	**37,439,050**

(Millions of Uzbek Soums)

31. Fair value measurement (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
At 31 December 2017	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities available-for-sale	31.12.2017			58,624	**58,624**
Assets for which fair values are disclosed					
Cash and cash equivalents	31.12.2017	11,080,508			**11,080,508**
Amounts due from credit institutions	31.12.2017	2,006,794			**2,006,794**
Loans to customers	31.12.2017			34,521,563	**34,521,563**
Investment securities held-to-maturity	31.12.2017			1,813	**1,813**

		Fair value measurement using			
At 31 December 2017	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to the CB	31.12.2017			571,014	**571,014**
Amounts due to credit institutions	31.12.2017			1,909,557	**1,909,557**
Amounts due to customers	31.12.2017			12,110,126	**12,110,126**
Debt securities issued	31.12.2017			176,506	**176,506**
Other borrowed funds	31.12.2017			29,382,360	**29,382,360**

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2018	***Fair value 2018***	***Unrecognized gain/(loss) 2018***	***Carrying value 2017***	***Fair value 2017***	***Unrecognized gain/(loss) 2017***
Financial assets						
Amounts due from credit institutions	1,892,000	1,860,230	(31,769)	2,006,794	2,002,796	(3,998)
Loans to customers	46,025,482	44,989,641	(1,035,841)	34,521,563	33,389,556	(632,007)
Financial liabilities						
Amounts due to credit institutions	950,879	948,202	(2,677)	1,909,557	1,909,599	(42)
Amounts due to customers	11,871,894	11,833,976	37,918	12,110,126	12,110,317	(191)
Other borrowed funds	37,439,050	36,858,413	580,637	29,382,360	29,109,732	272,628
Total unrecognized change in fair value			**(451,732)**			**(363,610)**

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed

31. Fair value measurement (continued)

Valuation techniques and assumptions (continued)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Investment securities available-for-sale

Investment securities available-for-sale valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

Fair value of the quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBR and credit institutions and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2018	**Carrying amount**	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Investment securities				
Equity securities	47,762	Discounted cash flow	Dividend payment rates, taking into account management's experience and knowledge of local market conditions of the banking industry	

31 December 2017	**Carrying amount**	*Valuation techniques*	*Unobservable input*	*Range (weighted average)*
Investment securities				
Equity securities	58,624	Discounted cash flow	Dividend payment rates, taking into account management's experience and knowledge of local market conditions of the banking industry	

(Millions of Uzbek Soums)

32. Maturity analysis of assets and liabilities

	2018		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	6,614,154	-	**6,614,154**
Amounts due from credit institutions	1,181,780	710,220	**1,892,000**
Loans to customers	7,139,146	38,886,336	**46,025,482**
Assets held for sale	20,755	-	**20,755**
Investment securities	-	47,762	**47,762**
Investments in associates	-	189,853	**189,853**
Other assets	241,584	-	**241,584**
Total	**15,197,419**	**39,834,171**	**55,031,590**
Amounts due to the CBU and Government	497,688	-	**497,688**
Amounts due to credit institutions	892,720	58,159	**950,879**
Amounts due to customers	10,423,502	1,448,392	**11,871,894**
Debt securities issued	-	145,915	**145,915**
Other borrowed funds	6,321,657	31,117,393	**37,439,050**
Other liabilities	377,818	-	**377,818**
Total	**18,513,385**	**32,769,859**	**51,283,244**
Net	**(3,315,966)**	**7,064,312**	**3,748,346**

	2017		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	11,076,106	-	**11,076,106**
Amounts due from credit institutions	1,771,757	234,099	**2,005,856**
Loans to customers	999,508	33,522,055	**34,521,563**
Assets held for sale	195,858	-	**195,858**
Investment securities	-	60,437	**62,250**
Investments in associates	-	55,936	**55,936**
Other assets	148,032	-	**148,032**
Total	**14,191,261**	**33,872,527**	**48,065,601**
			-
Amounts due to the CBU and Government	569,036	1,978	**571,014**
Amounts due to credit institutions	1,780,295	129,262	**1,909,557**
Amounts due to customers	12,011,288	98,838	**12,110,126**
Debt securities issued	31,064	145,442	**176,506**
Other borrowed funds	2,264,634	27,117,726	**29,382,360**
Other liabilities	71,022	-	**71,022**
Total	**16,727,339**	**27,493,246**	**44,220,585**
Net	**(2,536,078)**	**6,379,281**	**3,843,203**

As of 31 December 2018, the Group has a negative short-term liquidity gap within one year in amount of UZS 3,315,966 million. The Board of Management has validated an action plan, in accordance with which the Group is planning further capitalization and enhancement of short-term liquidity, moreover the Group annually assesses balances on the current accounts of corporate clients as sufficient to cover short-term liquidity gap.

(Millions of Uzbek Soums)

33. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

(Millions of Uzbek Soums)

33. Related party disclosures (continued)

The outstanding balances of other related party transactions are as follows:

	Government controlled entities	*Associates*	*Other related parties*	*Total category as per financial statement caption*	*Government controlled entities*	*Associates*	*Other related parties*	*Total category as per financial statement caption*
Cash and cash equivalents	239,772	-	-	**6,614,154**	2,424,329	-	-	**11,080,508**
Due from credit institutions	915,603	-	5,500	**1,892,000**	1,061,113	-	-	**2,006,794**
Investment securities	39,536	-	-	**47,762**	41,700	-	-	**58,624**
Loans to customers	23,834,751	80	167	**47,593,678**	24,479,659	48,923	87	**34,521,563**
Allowance for impairment losses – loans to customers	(889,668)	-	-	**(1,568,196)**	(744,580)	(2,527)	(1)	**(1,940,684)**
Debt securities	110,000	-	-	**145,915**	130,400	-	-	**176,506**
Amounts due to CBU and Government	554,739	-	-	**497,688**	571,014	-	-	**571,014**
Customer accounts	3,188,288	21,824	260	**11,871,894**	1,772,418	28,581	-	**12,110,126**
Due to credit institutions	482,022	-	-	**950,879**	967,997	-	-	**1,909,557**
Other borrowed funds	23,076,835	-	-	**37,439,050**	14,620,050	-	-	**29,382,360**
Guarantees	1,404,508	-	-	**2,350,499**	1,969,884	-	-	**2,076,391**
Letters of credit	3,194,187	-	600	**6,079,041**	2,361,682	17,052	-	**5,476,092**

The income and expense arising from related party transactions are as follows:

	Government controlled entities	*Associates*	*Other related parties*	*Total category as per financial statement caption*	*Government controlled entities*	*Associates*	*Other related parties*	*Total category as per financial statement caption*
Interest income on loans	1,320,043	-	-	**2,620,568**	1,207,283	-	-	**1,286,390**
Impairment charge for loans	300,560	1	2	**600,164**	(234,861)	-	-	**(1,301,695)**
Interest expense on deposits	(59,916)	-	-	**(389,072)**	(6,075)	-	-	**(201,745)**
Fee and commission income	62,134	510	-	**391,131**	53,741	441	-	**338,299**
Fee and commission expense	(7,029)	-	-	**(74,928)**	(48,195)	-	-	**(82,800)**
Operating expenses	-	-	**(2,869)**	**(378,820)**	-	-	**(2,813)**	**(538,959)**
Salaries and other benefits	-	-	(2,295)	**279,494**	-	-	(2,268)	**(199,091)**
Social Security Costs	-	-	(574)	**65,459**	-	-	(545)	**(48,883)**

(Millions of Uzbek Soums)

34. Capital adequacy

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBU in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Management Board reviews the capital structure on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall capital risk management policy remains unchanged from 2012.

The following table analyses the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee:

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2018 and 2017, comprised:

	2018	***2017***
At January	4,246,501	1,474,336
Net profit for the year	788,949	2,130,957
Capitalization of retained earnings	(3,053,440)	
Issuance of Share Capital	3,053,440	
Impact of adopting IFRS 9	(332,096)	
Dividend distribution to non-controlling interests	-	
Contribution made by government	126,096	568,663
Other comprehensive income for the year	(3,453)	72,545
At 31 December	**4,825,997**	**4,246,501**
Composition of regulatory capital:		
Tier 1 capital		
Share capital	4,320,970	1,267,530
Contribution from Shareholders	126,096	-
Retained earnings	335,635	2,970,056
Disclosed reserves	-	8,915
Total qualifying tier	**4,782,701**	**4,246,501**
Other reserves	43,296	-
Subordinated debt	-	145,277
General provision	1,179,753	1,358,207
Capital ratios	**6,005,750**	**5,749,985**
Tier 1 capital ratio	14.65%	16.43%
Total capital ratio	18.40%	22.25%

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